QUALITY DISTRIBUTION INC
Form 10-K
March 14, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2007

¨ **TRANSITION REPORT PURSUANT TO SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

COMMISSION FILE NUMBER 000-24180

Quality Distribution, Inc.

(Exact name of registrant as specified in its charter)

Florida	**59-3239073**
(State or other jurisdiction of	**(IRS Employer**
incorporation or organization)	**Identification No.)**

4041 Park Oaks Boulevard, Suite 200

Tampa, Florida 33610

(Address of principal executive offices) (zip code)

Registrant s telephone number, including area code:

813-630-5826

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class	Name of each exchange on which registered
Common Stock (no par value per share)	**NASDAQ Global Market**

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

Title of each class	Name of each exchange on which registered

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No x

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes ¨ No x

Aggregate market value of voting stock held by non-affiliates as of June 30, 2007 was $86.9 million (based on the closing sale price of $11.23 per share).

As of March 1, 2008, the registrant had 19,252,689 outstanding shares of Common Stock, no par value, outstanding.

Documents Incorporated by Reference: Portions of the Proxy Statement for the registrant s 2008 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

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INTRODUCTION

In this annual report, unless the context otherwise indicates, (i) the terms the Company, Quality Distribution, QDI, we, us and our refer to Quality Distribution, Inc. and its consolidated subsidiaries and their predecessors and (ii) the terms Quality Distribution, LLC and QD LLC refer to our wholly owned subsidiary, Quality Distribution, LLC, a Delaware limited liability company, and its consolidated subsidiaries and their predecessors.

FORWARD-LOOKING STATEMENTS AND CERTAIN CONSIDERATIONS

This report, along with other documents that are publicly disseminated by us contains or might contain forward-looking statements within the meaning of the Securities Exchange Act of 1934, as amended (the Exchange Act). All statements included in this report and in any subsequent filings made by us with the SEC other than statements of historical fact, that address activities, events or developments that we or our management expect, believe or anticipate will or may occur in the future are forward-looking statements. These statements represent our reasonable judgment on the future based on various factors and using numerous assumptions and are subject to known and unknown risks, uncertainties and other factors that could cause our actual results and financial position to differ materially. We claim the protection of the safe harbor for forward-looking statements provided in the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act and Section 21E of the Exchange Act. Examples of forward-looking statements include: (i) projections of revenue, earnings, capital structure and other financial items, (ii) statements of our plans and objectives, (iii) statements of expected future economic performance, and (iv) assumptions underlying statements regarding us or our business. Forward-looking statements can be identified by, among other things, the use of forward-looking language, such as believes, expects, estimates, may, will, should, could, seeks, plans, intends, anticipates negatives of those terms, or other variations of those terms or comparable language, or by discussions of strategy or other intentions.

Forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by the statements. The forward-looking information is based on various factors and was derived using numerous assumptions. Important factors that could cause our actual results to be materially different from the forward-looking statements include the following risks and other factors discussed under the Item-1A Risk Factors. These factors include:

- general economic conditions,
- the availability of diesel fuel,
- adverse weather conditions,
- competitive rate fluctuations,
- our substantial leverage and restrictions contained in our debt arrangements and interest rate fluctuations in our floating rate indebtedness,
- the cyclical nature of the transportation industry due to various economic factors such as excess capacity in the industry, the availability of qualified drivers, changes in fuel and insurance prices, interest rate fluctuations, and downturns in customers business cycles and shipping requirements,
- changes in demand for our services due to the cyclical nature of our customers businesses,
- potential disruption at U.S. ports of entry could adversely affect our business, financial condition and results of operations,

our dependence on affiliates and owner-operators and our ability to attract and retain owner-operators, affiliates and Company drivers,

changes in the future, or our inability to comply with, governmental regulations and legislative changes affecting the transportation industry,

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- our material exposure to both historical and changing environmental regulations and the increasing costs relating to environmental compliance,
- our liability as a self-insurer to the extent of our deductibles, as well as our ability or inability to reduce our claims exposure through insurance due to changing conditions and pricing in the insurance marketplace,
- the cost of complying with existing and future anti-terrorism security measures enacted by federal, state and municipal authorities,
- the potential loss of our ability to use net operating losses to offset future income due to a change of control,
- increased unionization, which could increase our operating costs or constrain operating flexibility,
- our ability to successfully integrate acquired businesses and converted affiliates, and
- interests of Apollo Management, our largest shareholder, which may conflict with your interests.

In addition, there may be other factors that could cause our actual results and financial condition to be materially different from the results referenced in the forward-looking statements.

All forward-looking statements contained in this Form 10-K are qualified in their entirety by this cautionary statement. Forward-looking statements speak only as of the date they are made, and we do not intend to update or otherwise revise the forward-looking statements to reflect events or circumstances after the date of this Form 10-K or to reflect the occurrence of unanticipated events.

PART I

ITEM 1. BUSINESS

Overview

We operate the largest for-hire chemical bulk tank truck network in North America based on bulk service revenues, and we believe we have more than twice the revenues of our closest competitor in our primary chemical bulk transport market in the U.S. The bulk tank truck market in North America includes all products shipped by bulk tank truck carriers and consists primarily of liquid and dry bulk chemicals (including plastics) and bulk dry and liquid food-grade products. We primarily transport a broad range of chemical products and provide our customers with tank wash facilities, ISO depot services, leasing, transloading services, logistics and other value-added services. We are a core carrier for many of the Fortune 500 companies engaged in chemical processing, including Dow Chemical, Procter & Gamble, DuPont and PPG Industries, and we provide services to most of the top 100 chemical producers with U.S. operations.

Our bulk service network consists primarily of company operated terminals, independently owned third-party affiliate terminals and independent owner-operator drivers. Affiliates are independent companies we contract with to operate trucking terminals and tank washes exclusively on our behalf in defined markets. The affiliates provide the capital necessary to service their contracted business and are also responsible for most of the operating costs associated with servicing the contracted business. Owner-operators are generally individual drivers who own or lease their tractors and agree to drive exclusively for us and our affiliate partners. We believe the use of affiliates and independent owner-operators provides the following key competitive advantages to us in the marketplace:

- Locally owned and operated affiliate terminals can provide superior, tailored customer service.

Affiliates and independent owner-operators are paid a fixed, contractual percentage of revenue for each load they transport creating a variable cost structure that provides protection against cyclical downturns.

Reliance on affiliate and independent owner-operators creates an asset-light business model that generally reduces our capital investment.

Our revenue is principally a function of the volume of shipments by the bulk chemical industry, the number of miles driven per load, our market share, and the allocation of shipments between tank truck transportation and other modes of transportation such as rail. The volume of shipments of chemical products is, in turn, affected by many other industries, including consumer and industrial products, automotive, paints and coatings, and paper, and tends to vary with changing economic conditions.

Acquisition

On December 18, 2007, we acquired all of the outstanding capital stock of Boasso America Corporation (Boasso) for an aggregate purchase price of (i) $58.8 million in cash less the outstanding long-term indebtedness of Boasso, subject to a working capital adjustment, and (ii) a $2.5 million 7% promissory note with a two-year maturity for the benefit of Boasso s principal stockholder, Walter J. Boasso (the Boasso Note) excluding fees and direct costs.

Boasso is the leading provider of International Organization for Standardization, or ISO, tank container over-the-road transportation and depot services in North America. The ISO tank container transportation and depot services market has experienced significant recent growth as chemical manufacturers have moved toward greater utilization of standardized ISO tank containers to efficiently transport their products around the world via sea, land and air. Boasso s tank container depots, which provide transportation, cleaning, heating, testing, maintenance and storage services, are located at or near the ports of Chalmette, Louisiana; Houston, Texas; Charleston, South Carolina; Chicago, Illinois; Detroit, Michigan and Jacksonville, Florida. In addition to further enhancing our scope of services, we believe there are synergies to be achieved from the Boasso acquisition, including lower insurance cost for the Boasso business and reduction of duplicative overhead and facilities.

Our Industry

We estimate, based on industry sources, that the highly fragmented North American for-hire segment of the chemical bulk transport market generated revenues of approximately $6.5 billion in 2006. We specifically operate in the for-hire chemical and food grade bulk transport market (estimated at $4.0 billion in 2006) where we believe, based on published reports, we have achieved leading market share (estimated at 18%), based on revenues. Our competition in the for-hire segment is comprised of more than 200 smaller, primarily regional carriers. Based on revenues as reported in *Bulk Transporter s Tank Truck Carrier 2006 Annual Gross Revenue Report,* we operate the largest for-hire chemical bulk tank truck network comprising terminals, tractors and trailers in North America and therefore believe we are well-positioned to expand our business by increasing our market share.

The chemical bulk tank truck industry growth is generally dependent on (i) volume growth in the industrial chemical industry, (ii) the rate at which chemical companies outsource their transportation needs, (iii) the overall capacity of the rail system, and, in particular (iv) the extent to which chemical companies make use of the rail system for their bulk chemical transportation needs. As competitive pressures force chemical companies to reduce costs and focus on their core businesses, we believe that chemical companies will consolidate their shipping relationships and outsource a greater portion of their logistics needs to third-party tank truck carriers. We believe that large, national full-service carriers will benefit from any such consolidation of relationships and outsourcing of logistics needs and will be able to grow faster than the overall bulk tank truck industry. As a result of our leading market position, breadth of customer services, flexible business model and decentralized operating structure, we believe we are well positioned to benefit from current industry outsourcing trends.

As the chemical industry continues the recent trend towards the globalization of petro-chemical manufacturing capacity, greater quantities of chemicals are being imported into the United States. Consequently, the ISO tank container transportation and depot services business has seen double digit growth rates over the past five years and this growth is expected to continue for the foreseeable future. Boasso is the market leader in the North American ISO tank container transportation and depot services business, which we estimate is a $250 million market.

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Our industry is characterized by high barriers to entry such as (i) the time and cost required to develop the operational infrastructure necessary to handle sensitive chemical cargo, (ii) the financial and managerial resources required to recruit and train drivers, (iii) substantial industry regulatory requirements, and (iv) the significant capital investments required to build a fleet of equipment and establish a network of terminals. In addition, the industry continues to experience consolidation due to economic and competitive pressures, increasing operating costs for driver recruitment and insurance, and increasing capital investments for equipment and technology. As the cost and complexity of operating a bulk tank truck business increase, we believe that large, well-established carriers like ourselves will gain market share.

Development of Our Company

Our Company was formed in 1994 as a holding company known as MTL, Inc. and consummated its initial public offering on June 17, 1994. On June 9, 1998, MTL, Inc. was recapitalized through a merger with a corporation controlled by Apollo Investment Fund III, L.P. As a result of the recapitalization, MTL, Inc. became a private company. On August 28, 1998, we completed our acquisition of Chemical Leaman Corporation and its subsidiaries (CLC). Through the 1998 acquisition, we combined two of the then-leading bulk transportation service providers, namely, Montgomery Tank Lines, Inc. and Chemical Leaman Tank Lines, Inc., under one operating company, Quality Carriers, Inc. (QCI). In 1999, we changed our name from MTL, Inc. to Quality Distribution, Inc. On November 13, 2003, we consummated the initial public offering of 7,875,000 shares of our common stock.

As of March 1, 2008, affiliates of Apollo Management, L.P. (Apollo), owned or controlled approximately 54.7% of our common stock, and approximately 46.6% of our common stock on a fully diluted basis.

Market Opportunity

We expect the complexities and operational challenges faced by chemical manufacturers to continue to grow as the chemical industry evolves. These complexities and challenges are driven by a variety of industry trends including customer demand for constantly lower prices, global import/export of bulk liquid products and the need to get product into the pipeline. In order to meet these challenges, we believe chemical producers will sell more through distribution as they look for ways to further reduce their costs by streamlining the supply chain. We believe supply chain efficiencies will be one of the necessary fundamentals for chemical manufacturers competitiveness.

In addition, the proliferation of global import/export of bulk liquid chemicals has driven the movement of basic manufacturing out of the United States and has resulted in an increase in chemical plant infrastructure to service these off-shore industries. Driven by this globalization, the ISO tank container market is a rapidly growing sector of the overall liquid bulk chemical transportation sector.

The resulting demand for distributors that can offer a broad range of services within the supply chain will drive future industry growth in the bulk transportation sector.

Our Competitive Strengths

Following are our strengths that we believe will allow us to successfully exploit the market opportunities described above.

Largest Tank Truck Network in a Fragmented Industry

We provide our customers with access to the largest tractor and tank trailer network in the North American bulk tank truck industry. In addition, our nationwide network of 121 trucking terminals, 38 tank wash facilities and 10 ISO depot services terminals covers all major North American chemical markets and enables us to serve customers with international, national and regional shipping requirements. Our size allows us, our affiliates and

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our owner-operators to benefit from economies of scale in the purchasing of supplies and services, including fuel, tires and insurance coverage. Our greater network density allows us to create efficiencies by increasing utilization through reduced empty miles with more opportunities to generate backhaul loads. Our size also enables us to invest in new technologies that increase our operating efficiency, improve customer service and lower our costs.

Capital Efficient Business Model

Our extensive use of affiliates and owner-operators results in a highly variable cost structure and significantly reduces our capital investment, thereby allowing us to increase our asset utilization. This model also contributes to the stability of our cash flow and margins and increases our return on capital. Affiliates are responsible for the necessary capital investments, the operating expenses related to their terminals, and most of the operating expenses related to the business they service. Typically, affiliates purchase or lease tractors for their business directly from the manufacturers and lease trailers from us. However, some affiliates purchase their own trailers or lease trailers from independent third parties. Owner-operators are independent contractors who supply one or more tractors and drivers for our own or our affiliates exclusive use. As with affiliates, owner-operators are responsible for most of the operating expenses related to the business they transport (excluding costs related to the acquisition and maintenance of trailers). With our extensive use of owner-operators and affiliates, we can reduce the high capital costs of purchasing and maintaining tractors.

Core Carrier to Most Top 100 Chemical Companies

We provide services to most of the top 100 chemical producers with U.S. operations. Our ability to maintain these business relationships reflects our service performance and commitment to safety and reliability. We have established long-term customer relationships with these clients, which help us attract and retain experienced affiliate terminal operators and drivers. We expect to continue to benefit from the overall growth of the largest chemical companies while targeting new revenue opportunities from smaller chemical companies and will continue to explore opportunities to expand the scope of services we offer.

Broad Menu of Complementary Services

Our ability to provide value-added services that complement our core service differentiates us from smaller competitors and enables us to gain market share, particularly with large customers that seek to use a limited number of core carriers. By increasing the number of services offered to our customers, we enhance our position as a leading national full-service provider in the industry. These services include storage and warehousing, vendor managed inventory, load tendering and managing private fleets.

Enhanced Productivity, Efficiency and Customer Service through Installed Technology

We are proactive in our utilization of technology aimed at improving our customer service and operating efficiency. In contrast to many of our smaller competitors, we have equipped our drivers with various mobile communications systems which enable us to monitor our tractors and communicate with our drivers in the field and enable customers to track the location and monitor the progress of their cargo through the Internet. We have also begun installing satellite tracking devices on our trailers to enable us to increase trailer utilization. Our website allows our customers to view bills and generate customized service reports. We have implemented a centralized order entry, dispatch and billing program system, which enhances our control over our equipment and drivers. This technology is increasingly important when transporting sensitive cargo in today s heightened security environment.

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Our Growth Strategy

We expect to grow as our customers continue to outsource more of their transportation management and logistics needs to full-service carriers. Beginning in 2005 under the direction of a new senior management team, we implemented several major strategic initiatives designed to enhance our operating flexibility, upgrade and standardize our business processes, improve customer service and increase profitability. During 2006 and 2007, these initiatives as described below have gained momentum and have positioned us to leverage our strengths in order to capitalize on the market opportunities that lie ahead.

Opportunistic Affiliate Conversions

We intend to continue to focus on a less capital intensive business model based on affiliates and owner-operators. However, we continually evaluate our mix of affiliate and company terminals to optimize customer service, revenue growth, profitability and return on investment. In situations where we can more efficiently operate facilities than the relevant affiliate, we may endeavor to purchase this affiliate s business to enhance our profitability and position us for better growth in key markets. However, we are still able to maintain our asset-light structure through the use of owner-operators at company owned terminals.

Continued Focus on Safety and Training

We have made safety the main focus of our organization. We have developed comprehensive programs to further focus our safety procedures and benchmark us against the best in the industry. Tangible results of this focus have already manifested themselves in decreasing at-fault accident frequencies. We also instituted a training program for terminal, field and headquarters personnel to augment our existing driver training and have begun providing extensive technical and interpersonal training to all dispatchers, terminal managers, and supervisors.

QDI is committed to conduct its operations in a manner that protects our employees, surrounding communities, customers, and the environment. As a member of the American Chemistry Council (ACC) and partner of Responsible Care®, it is our goal to improve the quality of our service and the level of safety. Participation in Responsible Care® is mandatory for all ACC member companies. QDI maintains a Responsible Care® Management System, which determines applicability and addresses the requirements of laws, regulations, company and other requirements regarding the environmental, health, safety & security of its operations. We have obtained independent certification that our management system is in place and functions according to professional standards and we continue to evaluate and continuously improve our Responsible Care® Management System performance.

Focus on Driver Recruitment and Retention

Our recruitment and retention effort is focused on providing drivers a welcoming opportunity with competitive compensation, an emphasis on professional development and an understanding that most drivers first priority is getting home safely to their families. Over the past four years we reduced driver turnover from 61% to approximately 49%, which we believe is well below the truckload industry average. We are committed to being a driver-focused company that provides both technical support and personal respect to these professionals. We offer competitive compensation, encourage input from our drivers when making business decisions, and utilize full-time customer service professionals who conduct both in-bound and out-bound calls to ensure driver satisfaction. Our driver organization contains field-based recruiters who augment the friendly, small business environment provided by our business model.

Expand Scope of Service Capabilities

We plan to continue to expand the scope of our service capabilities in order to serve the growing needs of our customer base. As our customers continue to focus on their core businesses, we believe that they will increasingly

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rely on primary service transportation companies to provide value-added services such as intermodal, tank cleaning and logistics services. Two initiatives to expand our service capabilities include the following:

Strengthen our Tank Wash Business

Over the past year, we have substantially improved our company owned tank wash facilities, installed new senior managers, trained staff and upgraded our safety program. We are focused on expanding this business by motivating our drivers, our affiliates drivers and third-party carriers to utilize our tank wash facilities and lessen usage of third party tank wash businesses. In 2007, we acquired Brite Clean, a tank wash operation that is expected to contribute approximately $12 million in revenue in 2008, for approximately $2.5 million. This acquisition further strengthened our leading market position in the tank wash business.

Expand ISO Tank Container Business

We currently participate in the ISO tank container business by providing transportation services and with the Boasso acquisition, we are now the market leader in the ISO tank container transportation and depot services business in North America. We believe that growing our ISO tank container depot business offers us the opportunity to expand our service offerings to many of our existing customers and to capitalize on this fast-growing segment which is being driven by the recent trend towards the globalization of petro-chemical manufacturing capacity.

Optimize Network

We are in the process of implementing several initiatives expected to increase profitability by minimizing the number of empty miles driven by our drivers. We do this by encouraging our affiliates and owner-operators to pursue additional revenue opportunities in their respective markets thereby increasing asset utilization. For example, we intend to move our pricing towards a revenue per mile compensation structure with our owner-operators instead of the existing percentage of revenue structure. We believe this change will help align owner-operators interests with ours and encourage them to increase load counts and improve backhaul rates resulting in increased revenue and operating income. Additionally, where necessary and when economically appropriate, we have expanded our company-owned transportation capacity by investing in new trailers through various methods, including purchases and leases.

Targeted Acquisitions

Our industry is highly fragmented, providing us with the opportunity to grow our distribution network and further develop our tank wash business through acquisitions. Smaller chemical bulk transport operators are seeking to strengthen their competitive position by becoming part of a larger service network. We believe that we are favorably positioned to benefit from this trend. In early 2006, we acquired two transportation companies for $4.1 million. In 2007, we acquired Brite Clean for $2.5 million, a small tank truck carrier for $0.5 million and Boasso for $58.8 million. We expect these acquired businesses to generate approximately $90.0 million in revenue in 2008. We intend to continue pursuing attractive acquisition opportunities that augment our position in key markets at attractive multiples.

Services Provided

Bulk Transportation Service

We are primarily engaged in the business of bulk transportation of liquid and dry chemical products through our subsidiary, QCI. Transportation services are provided through company and affiliate terminals. As of December 31, 2007, 66 of 121 locations were company operations and the remaining locations were affiliate operations. Owner-operators are heavily relied upon to fulfill driver and tractor needs at both company and affiliate terminals. At December 31, 2007, 62% of the drivers in our network were owner-operators and another 19% were affiliate company employees. We believe the combination of the affiliate program and the emphasis on the use of owner-operators results in an efficient and flexible operating structure that provides superior customer service.

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Affiliate Program

Affiliates are established and maintained by their owners as independent companies with individualized, parochial profit incentives designed to stimulate and preserve the entrepreneurial motivation common to small business owners. Each affiliate enters into a comprehensive contract with QCI pursuant to which the affiliate is required to operate its bulk tank truck enterprise exclusively for and on behalf of QCI, subject to limited exceptions. Each affiliate is supported by our corporate staff and is linked via computer to central management information systems located at our Tampa, Florida headquarters. Affiliates gain multiple benefits from their relationship with QCI, such as improved equipment utilization through access to our network of operating terminals, access to our broad national and local customer relationships, national driver recruitment, standardized safety training (for drivers, tankwashers and mechanics) and expanded marketing and sales resources. Affiliates gain further value from QCI s management information systems, which provide essential operating and financial reports while simplifying daily operating situations with system-wide technology support through TMW dispatch/billing platforms and various mobile communication technologies for en-route electronic linkage. Affiliates also derive significant financial benefit through our purchasing leverage on items such as insurance coverage, tractors, fuel and tires.

Affiliates predominantly operate under the marketing identity of QCI and typically receive a percentage of gross revenues from each shipment they transport. Affiliates are responsible for their own operating expenses, such as maintenance and workers compensation insurance. This operating model creates a highly variable cost structure for QCI. We pay affiliates each week on the basis of completed billings to customers from the previous week. Our weekly settlement program deducts any amounts advanced to affiliates (and their individual drivers) for fuel, insurance, loans or other miscellaneous operating expenses, including rental charges for QCI s tank trailers. We reimburse affiliates for certain expenses billed back to customers, including fuel, tolls and scaling charges.

Affiliate contracts generally contain restrictive covenants prohibiting them from competing directly with QCI for a period of one year following termination of the contract. In addition, affiliates are required to meet all QCI standard operating procedures as well as being required to submit regular financial statements. Affiliates employ their own drivers and personnel as well as engage owner-operators who are contracted with QCI. All affiliate owner-operators and affiliate employee drivers must meet QCI s operating standards and requirements.

Affiliates are required to pay for and provide evidence of their own workers compensation coverage, which must meet both company-established and statutory coverage levels. Affiliates are provided, as part of their contract, property damage and general liability insurance, subject to certain deductibles per incident. Expenses exceeding the prescribed deductible limits of the affiliate are the responsibility of QCI or its insurer.

Owner-Operators

QCI terminals and affiliates extensively utilize owner-operators. Owner-operators are independent contractors who, through a contract with QCI, supply one or more tractors and drivers for QCI or affiliate use. QCI retains owner-operators under contracts generally terminable by either party upon short notice.

In exchange for the services rendered, owner-operators are normally paid a fixed percentage of the revenues generated for each load hauled or on a per mile rate. The owner-operator pays all tractor operating expenses such as fuel, physical damage insurance, tractor maintenance, fuel taxes and highway use taxes. However, we reimburse owner-operators for certain expenses passed through to our customers, such as fuel surcharges, tolls and scaling charges. QCI attempts to enhance the profitability of our owner-operators through purchasing programs offered by us directly or indirectly through outsourcing arrangements that take advantage of our significant purchasing power. These programs cover such operating expenses as tractors, fuel, tires, occupational accident insurance and physical damage insurance.

Drivers utilized by QCI or an affiliate must meet specified guidelines for driving experience, safety records, tank truck experience and physical examinations in accordance with DOT regulations. We emphasize safety to our owner-operators, affiliate drivers and employee drivers and maintain driver safety inspection programs, safety awards, terminal safety meetings and stringent driver qualifications.

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Tank Wash Operations

To maximize equipment utilization and efficiency we rely on tank wash facilities owned and operated by our subsidiaries, Quality Services, Inc. (QSI), and Boasso and affiliate-owned tank wash facilities located throughout our operating network. These facilities allow us to generate tank washing fees from owner-operators and affiliates as well as from other carriers and shippers. We believe that the availability of these facilities enables us to provide an integrated service package to our customers and minimizes the risk of cost escalation associated with sole reliance on third-party tank wash vendors.

Owner-Operator and Affiliate Services

We offer purchasing programs that take advantage of our significant purchasing power for products and services such as fuel, tractors, and tires as well as physical damage, occupational-accident and workers compensation insurance. We believe that these programs strengthen our relationship with our owner-operators and improve driver recruitment.

Intermodal and Transloading

In support of our liquid and dry bulk truck operations, we offer our customers supplementary services in the areas of import/export container drayage to and from major port operations, domestic intermodal door-to-door service, and railcar to truck transloading services.

Boasso Services

Intermodal Tank Container Services

In addition to intermodal ISO tank transportation services, Boasso provides tank cleaning, heating, testing, maintenance and storage services to customers in the rail, road and marine shipping industries, with particular focus on the chemical industry. Tank containers are among the most specially configured and regulated vessels in the intermodal industry, requiring experienced and specialized technicians for cleaning, inspection, repair, testing, modification and refurbishment. Boasso provides these services, plus product heating and storage services, at most of its container depots. Boasso has heavy lifting, transloading and other specialty equipment to provide a wide range of services for the tank container niche of the intermodal transportation industry.

Transportation Services

Boasso utilizes its fleet of approximately 280 company-owned and independent owner-operated tractors, as well as a fleet of approximately 800 chassis to provide local and over-the-road trucking primarily within the proximity of the port cities where its depots are located, with a special emphasis on the handling of intermodal tank containers. Boasso uses radio dispatch to provide local transportation needs, at any time of the day, to meet its customers production schedule and/or shipping departure requirements. We believe that our customers are attracted to Boasso s service offerings by its well maintained equipment, special training, safety programs and regulatory compliance.

Equipment Sales

Boasso s equipment sales division provides its customers with intermodal shipping containers, tank containers, special equipment or custom containers with different characteristics as to construction, sizes or types that its customers use for portable alternative storage or office space.

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Operations

Driver Recruitment and Retention

QCI and its affiliates dedicate significant resources to recruiting and retaining owner-operators and employee drivers. Prospective employee drivers and owner-operators are subject to specific eligibility guidelines regarding safety records and driving experience as well as a personal evaluation by our staff. We utilize only qualified drivers who meet our standards. These drivers are required to attend a rigorous safety training program administered by the Company.

Driver recruitment and retention is a primary focus for all operations personnel. Each terminal manager has direct responsibility for hiring and retaining drivers. QCI also has centralized recruiting departments at our Tampa corporate office and regional field offices. We use many of the traditional methods of driver recruitment as well as using many newer methods of driver recruitment, including the use of the Internet.

From time to time, we facilitate driver recruitment by offering tractors through lease or purchase agreements. We also offer assistance to owner-operators and affiliate drivers to purchase the specialized equipment needed to handle liquid chemicals.

Drivers and Owner-Operators

At December 31, 2007, we utilized 3,486 drivers. Of this total, 2,149 were owner-operators, 666 were affiliate company employee drivers, and 671 were company employee drivers.

Company Personnel

At December 31, 2007, we employed 1,892 personnel, including 671 company employee drivers.

We provide our employees with health, dental, vision, life, and other insurance coverage subject to certain premium sharing and deductible provisions.

Union Labor

At December 31, 2007, we had 259 employees (122 drivers) in trucking, maintenance or tank wash facilities and approximately 30 drivers at three affiliate terminals who were members of the International Brotherhood of Teamsters.

Tractors and Trailers

As of December 31, 2007, we managed a fleet of approximately 3,900 tractors and 7,500 tank trailers. The majority of our tanks are single compartment, chemical-hauling trailers. The balance of the fleet is made up of multi-compartment trailers, dry bulk trailers, and special use equipment. The chemical transport units typically have a capacity between 5,000 and 7,800 gallons and are designed to meet DOT specifications for transporting hazardous materials. Each trailer is designed for a useful service life of 15 to 20 years, though this can be extended through upgrades and modifications. Each tractor is designed for a useful life of five to seven years, though this can be extended through upgrades and modifications. We acquire new tractors for an initial utilization period of seven years.

Many of our terminals and our affiliate terminals perform preventative maintenance and receive computer-generated reports that indicate when inspection and servicing of units are required. Our maintenance facilities are registered with the DOT and are qualified to perform trailer inspections and repairs for our fleet and for equipment owned by third parties. We also rely on unaffiliated repair shops for many major repairs.

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The following table shows the age of trailers and tractors we managed as of December 31, 2007. All numbers are approximated as of such date:

TRAILERS (1)	LESS THAN 3 YEARS	3~5 YEARS	6~10 YEARS	11~15 YEARS	16~20 YEARS	GREATER THAN 20 YEARS	TOTAL
Company	319	102	823	1,728	1,323	1,700	5,995
Affiliate	179	35	303	276	124	285	1,202
Owner-Operator			1	4	3	1	9
Shipper Owned	114	41	34	32	37	42	300
Total	**612**	**178**	**1,161**	**2,040**	**1,487**	**2,028**	**7,506**

(1) We also had 151 trailers that were held-for-sale.

TRACTORS (1)	LESS THAN 3 YEARS	3~5 YEARS	6~10 YEARS	GREATER THAN 10 YEARS	TOTAL
Company (2)	270	512	426	81	1,289
Affiliate	296	226	270	91	883
Owner-Operator	163	284	846	462	1,755
Total	**729**	**1,022**	**1,542**	**634**	**3,927**

(1) Age based upon original date of manufacture; tractor/trailer may be substantially refurbished or re-manufactured.
(2) Included 230 sub-leased or lease/purchased to owner-operators or affiliates, leaving a net 1,059 available for use at company terminals.

Leasing

We lease and sub-lease tractors to owner-operators and affiliates and also lease and sub-lease trailers to affiliates and other third parties, including shippers. Tractor lease and sub-lease terms range from 6 to 60 months and generally include a purchase option. Trailer lease and sub-lease terms range from 1 day to 84 months and do not include a purchase option. We derive a portion of our income from leasing these units to owner-operators, customers and affiliates.

Customer Service, Quality Assurance and Billing

Our quality assurance program is designed to achieve superior customer service through the development and implementation of standardized operating procedures for each area within our Company. The procedures provide guidance in such areas as marketing, contracts, dispatch and terminal operations, driver hiring, safety and training, trailer operations, tractor operations, administrative functions, payroll, settlements, insurance, data processing and fuel tax administration. We also have an internal audit department that helps monitor and ensure compliance with company policies and procedures. We have also implemented a quality corrective action procedure to identify, document and correct safety and service non-conformance. We collect data on all incidents in order to better understand what occurred and, where appropriate, analyze where processes broke down, causing a non-conformance. This information is also reported back to many of our customers in the form of monthly service reports. Service reporting is required by an increasing number of chemical shippers.

Technology

We operate a system for dispatching trucks that enhances our ability to track our drivers, tractors, trailers and manage the business at a tactical level. Our system handles order entry, resource planning, dispatch and communications through various mobile communications platforms including Qualcomm OmniTRACS®, through our proprietary system, EDGE, for communication and equipment location updates, and through TMW

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platforms for resource tracking. We are also in the process of deploying GPS tracking devices for our trailer fleet. We provide document imaging at all locations and incorporate data accessible through our website at www.qualitydistribution.com. Information contained on our website does not constitute a part of this Form 10-K. These systems add to the productivity of our employees and increase integration of our equipment, which we believe results in improved value to our customers.

SALES AND MARKETING

We conduct our marketing activities at both the national and local levels. We employ geographically dispersed sales managers who market our services primarily to regional accounts. These sales managers have extensive experience in marketing specialized tank truck transportation services. The national corporate sales staff concentrates on selling to a defined national account base. In addition, significant portions of our marketing activities are conducted by regional sales directors in conjunction with our terminal managers and dispatchers who act as local customer service representatives. These managers and dispatchers maintain regular contact with shippers and are well-positioned to identify the changing transportation needs of customers in their respective geographic areas.

ADMINISTRATION

As of December 31, 2007, we operated approximately 121 trucking terminals, 38 tank wash facilities and 10 ISO depot services terminals throughout the United States as well as in Canada. Company and affiliate terminals operate as separate profit centers and terminal managers are responsible and accountable for most operational decisions. Effective supervision requires maximum personal contact with customers and drivers. Therefore, to accomplish mutually defined operating objectives, the functions of customer service, dispatch and general administration typically rest within each terminal. Cooperation and coordination is further encouraged by our backhaul program.

From the corporate offices in Tampa, Florida, management monitors each terminal s operating and financial performance, safety and training record, accounts receivable and customer service efforts. Terminal managers are responsible for ensuring their terminals remain in compliance with safety, maintenance, customer service and other operating procedures. Senior corporate executives, safety department personnel and audit department personnel conduct unannounced visits to verify terminal compliance. We strive to achieve uniform service and safety at all company and affiliate terminals, while simultaneously affording terminal managers the freedom to focus on generating business in their regions.

CUSTOMERS

Our revenue base consists of customers located throughout North America, including many Fortune 500 companies such as Dow Chemical Company, Procter & Gamble, PPG Industries, and DuPont. During 2007, 2006 and 2005, Dow Chemical accounted for approximately 8.3%, 9.7%, and 10.2% of total revenue, respectively. In 2007, 2006, and 2005 our 10 largest customers accounted for 34.1%, 29.8%, and 31.2% respectively of total revenues.

COMPETITION

The tank truck business is competitive and fragmented. We compete primarily with other tank truck carriers and dedicated private fleets in various states within the United States and Canada. With respect to certain aspects of our business, we also compete with intermodal transportation and railroads. Intermodal transportation has increased in recent years.

Competition for the freight transported by us is based primarily on rates and service. Management believes that we enjoy significant competitive advantages over other tank truck carriers because of our variable cost structure, overall fleet size, national terminal network and tank wash facilities.

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Our largest competitors are Trimac Transportation Services Ltd., Superior Carriers, Inc., Groendyke Transport, Inc., Schneider National, Inc. and the Dana Companies. However, there are many other smaller recognized tank truck carriers, most of which are primarily regional operators.

We also compete with other motor carriers for the services of our drivers and owner-operators. Our overall size and our reputation for good relations with affiliates and owner-operators have enabled us to attract qualified professional drivers and owner-operators.

Competition from non-trucking modes of transportation and from intermodal transportation would likely increase if state or federal fuel taxes were to increase without a corresponding increase in taxes imposed upon other modes of transportation.

RISK MANAGEMENT, INSURANCE AND SAFETY

The primary insurable risks associated with our business are motor vehicle related bodily injury and property damage, workers compensation and cargo loss and damage (which includes spills and chemical releases). We maintain insurance against these risks and are subject to liability as a self-insurer to the extent of the deductible under each policy. We currently maintain liability insurance for bodily injury and property damage with an aggregate limit on the coverage in the amount of $40 million, with a $5 million per incident deductible.

We currently maintain a $1 million per incident deductible for workers compensation insurance coverage. We are insured over our deductible up to the statutory requirement by state. We are self-insured for damage or loss to the equipment we own or lease, and for cargo losses.

We employ personnel to perform compliance checks and conduct safety tests throughout our operations. We conduct a number of safety programs designed to promote compliance with rules and regulations and to reduce accidents and cargo claims. These programs include training programs, driver recognition programs, safety awards, driver safety meetings, distribution of safety bulletins to drivers and participation in national safety associations.

ENVIRONMENTAL MATTERS

It is our policy to be in compliance with all applicable environmental, safety, and health laws. We also are committed to the principles of Responsible Care®, an international chemical industry initiative to enhance the industry s responsible management of chemicals. We have obtained independent certification that our management system is in place and functions according to professional standards and we continue to evaluate and continuously improve our Responsible Care® Management System performance.

Our activities involve the handling, transportation and storage of bulk chemicals, both liquid and dry, many of which are classified as hazardous materials or hazardous substances. Our tank wash and terminal operations engage in the generation, storage, discharge and disposal of wastewater that may contain hazardous substances, the inventory and use of cleaning materials that may contain hazardous substances and the control and discharge of storm-water from industrial sites. In addition, we may store diesel fuel, materials containing oil and other hazardous products at our terminals. As such, we and others who operate in our industry or own and operate real property, are subject to environmental, health and safety laws and regulation by U.S. federal, state and local agencies as well as foreign governmental authorities. Environmental laws and regulations are complex, and address emissions to the air, discharge onto land or water, and the generation, handling, storage, transportation, treatment and disposal of waste materials. These laws change frequently and generally require us to obtain and maintain various licenses and permits. Environmental laws have tended to become more stringent over time, and most provide for substantial fines and potential criminal sanctions for violations. Some of these laws and regulations are subject to varying and conflicting interpretations.

Facility managers are responsible for environmental compliance at each operating location. Audits conducted by our staff assess operations, safety training and procedures, equipment and grounds maintenance, emergency response capabilities and waste management. We may also, if circumstances warrant, contract with independent environmental consulting firms to conduct periodic, unscheduled, compliance assessments that focus on unsafe conditions with the potential to result in releases of hazardous substances or petroleum, and that also include screening for evidence of past spills or releases. Our staff includes environmental professionals who develop guidelines and procedures, including audits of our terminals, tank cleaning facilities, and certain historical operations.

We have incurred in the past, and expect to incur in the future, capital and other expenditures related to environmental compliance for current and planned operations. Such expenditures are generally included in our overall capital and operating budgets and are not accounted for separately. However, we do not anticipate that compliance with existing environmental laws in conducting current and planned operations will have a material adverse effect on our capital expenditures, earnings or competitive position.

We are potentially subject to strict, joint and several liability for investigating and rectifying the consequences of spills and other environmental releases of such substances under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (CERCLA), the Resource Conservation and Recovery Act of 1976 (RCRA), the Superfund Amendments and Reauthorization Act of 1986, and comparable state and foreign laws. Under certain of these laws, we could also be subject to allegations of liability for the activities of our affiliates or owner-operators. From time to time, we have incurred remedial costs and regulatory penalties with respect to chemical or wastewater spills and releases at our facilities and on the road, and, notwithstanding the existence of our environmental management program, we cannot assure that such obligations will not be incurred in the future, predict with certainty the extent of future liabilities and costs under environmental, health, and safety laws, or assure that such liabilities will not result in a material adverse effect on our financial condition, results of operations or business reputation.

In addition, we may face liability for alleged personal injury or property damage due to exposure to chemicals and other hazardous substances at our facilities or as the result of accidents and spills. Although these types of claims have not historically had a material impact on our operations, a significant increase in these claims could have a material adverse effect on our business, financial condition, operating results or cash flow.

As the result of environmental studies conducted at our facilities or third party sites in conjunction with our environmental management program, we have identified environmental contamination at certain sites that will require remediation. In addition, we have been named a potentially responsible party at various sites under the CERCLA and other similar state statutes.

Reserves

Our policy is to accrue remediation expenses when it is probable that such efforts will be required and the related expenses can be reasonably estimated. Estimates of costs for future environmental compliance and remediation are necessarily imprecise due to such factors as the continuing evolution of environmental laws and regulatory requirements, the availability and application of technology, the identification of currently unknown potential remediation sites and the allocation of costs among the potentially responsible parties under applicable statutes. As of December 31, 2007 and 2006, we had reserves in the amount of $11.2 million and $11.8 million, respectively, for all environmental matters discussed below.

Property Contamination Liabilities

We have been named as (or are alleged to be) a potentially responsible party (PRP) under CERCLA and similar state laws at approximately 28 sites. At 17 of these sites, we are one of many parties with alleged liability and are negotiating with either Federal, State or private parties on the scope of our obligations, if any. For example, we have been notified of potential liabilities involving the Lower Passaic River Study Area in New Jersey, the Malone Superfund Site in Texas, and two Quanta Resources sites in New York. We will be participating in the initial studies of these sites to determine site remediation objectives, goals and technologies.

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Since our overall liability cannot be estimated at this time, we have set reserves for only the initial remedial investigation phase at the four sites. Of the 17 sites, we have explicitly denied any liability for three sites and since there has been no subsequent demand for payment we have not established a reserve for these matters. We have estimated future expenditures for these off-site multi-party environmental matters, to be in the range of $1.7 million to $3.8 million.

We and our predecessors have also been named in three civil actions related to property contamination. One of these matters has been settled, subject to a $25,000 payment. The second matter involves plaintiffs seeking contribution for remediation at an offsite chemical distribution and re-packaging facility and the third matter involves claims for the remediation of and diminution in value of privately owned property near the Omega Chemical Superfund Site. However, we are seeking indemnification from the PRP Group in accordance with a previous de-minimis settlement agreement with the Omega PRP Group.

At eight sites, we are the only responsible party and are in the process of conducting investigations and/or remediation projects. Six of these projects relate to operations conducted by Chemical Leaman Corporation and its subsidiaries (CLC) prior to our acquisition of and merger with CLC in 1998. These six sites are: Bridgeport, New Jersey; William Dick, Pennsylvania; Charleston, West Virginia; Tonawanda, New York; Scary Creek, West Virginia; and East Rutherford, New Jersey. Each of these sites is discussed in more detail below. The remaining two investigations and remediations were triggered by the New Jersey Industrial Site Remediation Act (ISRA), which requires such investigations and remediations following the sale of industrial facilities. In addition to these eight sites, the current owner of one of our leased tank wash sites has agreed to take responsibility for complying with the investigation and remediation required by ISRA, and is currently investigating the site. We have estimated future expenditures for these eight properties to be in the range of $8.8 million to $16.7 million.

Bridgeport, New Jersey

QDI is required under the terms of two federal consent decrees to perform remediation at this operating truck terminal and tank wash site. CLC entered into consent orders with USEPA in May 1991 for the treatment of groundwater (operable unit one or OU1) and October 1998 for the removal of contamination in the wetlands (OU3). In addition, we were required to assess the removal of contaminated soils (OU2).

In connection with OU1, USEPA originally required us to construct a large treatment plant with discharge via a two mile pipeline to the Delaware River watershed with construction to be completed by the end of 2001. We have negotiated an alternative remedy with USEPA which would call for a significantly smaller treatment facility, in place treatment of groundwater contamination via in-situ treatment and a local discharge. The treatment facility has been approved and construction was completed in early 2007. The plant is going through the start-up phase. USEPA has also approved an OU3 remedy for approximately 2.5 acres of affected wetland. This reflects a reduction from an approximate seven acre area that had been under negotiation. Site mobilization for the OU3 work took place in late May 2004 but was delayed due to weather-related issues. Field work was re-started in May 2005 has been completed. Monitoring of the restoration work is on-going. Additional contamination has been identified since December 31, 2005. In regard to OU2, USEPA is now in the process of finalizing a Feasibility Study for the limited areas that show contamination and warrant additional investigation or work. USEPA also wants to include in OU2 the in-situ treatment previously described as part of OU1. The environmental projections for OU1 and OU2 have been changed to reflect the reallocation of the in-situ costs to OU2 and the proposed contract amount for the OU1 work. We have estimated expenditures to be in the range of $4.8 million to $8.5 million.

William Dick, Pennsylvania

CLC entered into a consent order with the Pennsylvania DEP (PADEP) and USEPA in October 1995 obligating it to provide a replacement water supply to area residents (OU1), treat contaminated groundwater (OU2), and perform remediation of contaminated soils (OU3) at this former wastewater disposal site. OU1 is complete. With respect to OU2, PADEP and USEPA have approved an interim remedy, which involves the

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construction of a treatment facility and discharge locally. We began construction of this facility in November 2006 and the work was completed in the fourth quarter 2007. The plant is going through the start-up phase. Based on recent data showing reduction in site groundwater contamination due to natural attenuation and the more extensive handling and removal of contaminated soils, we believe that the groundwater project can be completed over the five-year term of this interim remedy. The agencies have approved an OU3 remedy, which requires both thermal treatment of contaminated soils and treatment of residuals via soil vapor extraction (SVE). The OU3 remedy expanded in April 2004 to off-site shipment of contaminated soils because these soils were found to be incompatible with the thermal treatment unit, which started full-scale operation in May 2004. In 2004, we also discovered buried drums and associated contaminated material and soils, which required off-site disposal. In the third quarter of 2004, we determined that a latex liner waste material was present in the third pond, which needed to be excavated and removed for disposal offsite. This work was completed in early 2005. We also determined that the soils in pond three needed to be excavated to determine if they will be suitable for the originally planned SVE treatment. We excavated the pond s soils into three discrete piles and determined the best approach to treat these soil piles. It was determined that most of the soil piles could be treated on site using SVE as originally planned. However, some modifications to the design had to be made in order to treat a limited number of soil piles. The SVE work began in 2006 and was completed in September 2007. Final site sampling will be conducted to determine if soil clean-up objectives have been achieved. We have estimated expenditures to be in the range of $1.4 million to $3.4 million.

Other Properties

Scary Creek, West Virginia: CLC received a clean up notice from the State authority in August 1994 requiring remediation of contaminated soils and groundwater at this former wastewater disposal facility. However, the State and we have agreed that remediation can be conducted under the State s voluntary clean-up program (instead of the state superfund enforcement program). We are currently completing the originally planned remedial investigation and the additional site investigation work that is required to completely delineate the extent of site contamination. Upon completion of the site investigation phase, a remedial feasibility study and design will be prepared to address contaminated soils, and, if applicable, groundwater. The expectation is that a remedy utilizing primarily in-situ treatment with limited soil removal will be conducted.

Tonawanda, New York: CLC entered into a consent order with the New York Department of Environmental Conservation on June 22, 1999 obligating it to perform soil and groundwater remediation at this former truck terminal and tank wash site. We have completed a remedial investigation and a feasibility study with the expectation that we will conduct a remedy that may include in-situ treatment, limited soil removal and monitored natural attenuation of the groundwater.

We have estimated future expenditures for Scary Creek and Tonawanda to be in the range of $2.6 million to $4.8 million.

Charleston, West Virginia: CLC completed a remediation of a former drum disposal area in 1995 at its active truck terminal and tank wash site under the terms of a State hazardous waste permit. The State has required supplemental groundwater monitoring in connection with the same permit. We have completed this work and believe that no additional remediation will be required.

East Rutherford, New Jersey: CLC entered into a Memorandum of Agreement with the State of New Jersey on June 11, 1996 obligating it to perform a Remedial Investigation and Remedial Action with respect to a subsurface loss of an estimated 7,000 gallons of fuel oil at this former truck terminal and tank wash site. We have completed the recovery of free product and conducted groundwater monitoring and are awaiting final approval of a plan to terminate further remedial action with some limited contamination left in place.

ISRA New Jersey Facilities: We are obliged to conduct investigations and remediation at three current or former New Jersey tank wash and terminal sites pursuant to the state s Industrial Sites Remediation Act, which requires such remediation following the sale of facilities after 1983. The former owner has agreed to take responsibility for one of the sites and the other two are in the process of remedial investigation with projections set in contemplation of limited soil remediation expense for contaminated areas.

There can be no assurance that additional issues or sites for which we are responsible will not be discovered, that violations by us of environmental laws or regulations will not be identified or occur in the future, or that environmental, health and safety laws and regulations will not change in a manner that could impose material costs on us.

MOTOR CARRIER REGULATION

As a motor carrier, we are subject to regulation by the Federal Motor Carrier Safety Administration (FMCSA), and the Surface Transportation Board, or STB, both of which are units of the Department of Transportation (DOT). The FMCSA enforces comprehensive trucking safety regulations and performs certain functions relating to such matters as motor carrier registration, cargo and liability insurance, extension of credit to motor carrier customers, and leasing of equipment by motor carriers from owner-operators. The STB has authority to resolve certain types of pricing disputes and authorize certain types of intercarrier agreements. There are additional regulations specifically relating to the tank truck industry, including testing and specifications of equipment and product handling requirements. We may transport most types of freight to and from any point in the United States over any route selected by us. The trucking industry is subject to possible regulatory and legislative changes that may affect the economics of the industry by requiring changes in operating practices or by changing the demand for common or contract carrier services or the cost of providing truckload services. Some of these possible changes may include increasingly stringent environmental regulations, increasing control over the transportation of hazardous materials, changes in the hours-of-service regulations which govern the amount of time a driver may drive in any specific period of time, mandatory onboard black box recorder devices or limits on vehicle weight and size. In addition, our tank wash facilities are subject to stringent local, state and federal environmental regulation.

Interstate motor carrier operations are subject to safety requirements prescribed by the DOT. To a large degree, intrastate motor carrier operations are subject to safety and hazardous material transportation regulations that mirror federal regulations. Such matters as weight and dimension of equipment are also subject to federal and state regulations. DOT regulations mandate drug and alcohol testing of drivers and other safety personnel.

Title VI of The Federal Aviation Administration Authorization Act of 1994, generally prohibits individual states, political subdivisions thereof and combinations of states from regulating price, entry, routes or service levels of most motor carriers. However, the states retained the right to continue to require certification of carriers, based upon two primary fitness criteria safety and insurance and retained certain other limited regulatory rights. Prior to January 1, 1995, we held intra-state authority in several states. Since that date, we have either been grandfathered or have obtained the necessary certification to continue to operate in those states. In states in which we were not previously authorized to operate intra-state, we have obtained certificates or permits allowing us to operate.

We are subject to compliance with cargo security and transportation regulations issued by the Transportation Security Administration and by the Department of Homeland Security, including regulation by the new Bureau of Customs and Border Protection. We believe that we will be able to comply with pending Bureau of Customs and Border Protection rules, which will require pre-notification of cross-border shipments, with no material effect on our operations. We are also subject to the motor carrier laws of Canada and Mexico.

From time to time, various legislative proposals are introduced including proposals to increase federal, state, or local taxes, including taxes on motor fuels, which may increase our costs and adversely impact the recruitment of drivers. We cannot predict whether, or in what form, any increase in such taxes applicable to us will be enacted.

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SEASONALITY

Our business is subject to limited seasonality due to the nature of the business of our customers, with revenues generally declining slightly during winter months, namely the first and fourth fiscal quarters, and over holidays. Highway transportation can be adversely affected depending upon the severity of the weather in various sections of the country during the winter months. Our operating expenses also have been somewhat higher in the winter months, due primarily to decreased fuel efficiency, increased utility costs and increased maintenance costs of equipment in colder months.

ADDITIONAL INFORMATION AVAILABLE ON COMPANY WEBSITE

Our most recent Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports may be viewed or downloaded electronically or as paper copies from our website: *http://www.qualitydistribution.com* as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our recent press releases are also available to be viewed or downloaded electronically at *http://www.qualitydistribution.com*. We will also provide electronic or paper copies of our SEC filings free of charge on request. Any information on or linked from our website is not incorporated by reference into this Annual Report on Form 10-K.

ITEM 1A. RISK FACTORS

Risks Related to Our Business

Our business is subject to general and industry specific economic factors that are largely out of our control and could affect our operations and profitability.

Our business is dependent on various economic factors over which we have little control, that include:

- the availability of qualified drivers,
- changes in regulations concerning shipment of material we transport,
- increases in fuel taxes and tolls,
- interest rate fluctuations,
- excess capacity in the tank trucking industry,
- changes in license and regulatory fees,
- potential disruptions at U.S. ports of entry,
- downturns in customers business cycles,
- reduction in customers shipping requirements, and

the U.S. economy generally.

As a result, we may experience periods of overcapacity, declining prices and lower profit margins in the future. We have a large number of customers in the chemical-processing and consumer-goods industries. If these customers experience fluctuations in their business activity due to an economic downturn, work stoppages or other industry conditions, the volume of freight transported by us on behalf of those customers may decrease. The trucking industry has experienced a slowdown in recent months due to slowing economic conditions.

Loss of qualified drivers or other personnel could limit our growth and negatively affect operations.

There is substantial competition for qualified drivers in the trucking industry. Furthermore, certain geographic areas have a greater shortage of qualified drivers than other areas. We operate in many of these geographic areas where there is a shortage of drivers and have turned down new business opportunities as a result

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of the lack of qualified new drivers. Difficulty in attracting qualified personnel, particularly qualified drivers, could require us to increase driver compensation, forego available customer opportunities and underutilize the tractors and trailers in our network. These actions could result in increased costs and decreased revenues. In addition, we may not be able to recruit other qualified personnel in the future.

Loss of affiliates and owner-operators could adversely affect our operations and profitability.

We rely on participants in our affiliate program and independent owner-operators. A reduction in the number of owner-operators, whether due to capital requirements related to the expense of obtaining, operating and maintaining equipment or for other reasons, could have a negative effect on our operations and profitability. Similarly the loss of our more robust affiliates could adversely affect our profitability. Contracts with affiliates are for various terms and contracts with owner-operators may be terminated by either party on short notice. Although affiliates and owner-operators are responsible for paying for their own equipment and other operating costs, significant increases in these costs could cause them to seek a higher percentage of the revenue generated if we are unable to increase our rates commensurately. Conversely, a continued decline in the rates we pay to our affiliates and owner-operators could adversely affect our ability to maintain our existing affiliates and owner-operators and attract new affiliates, owner-operators and drivers.

We are self-insured and have exposure to certain claims and are subject to the insurance marketplace, all of which could affect our profitability.

The primary accident risks associated with our business are:

- motor-vehicle related bodily injury and property damage,
- workers compensation claims,
- cargo loss and damage, and
- general liability claims.

We currently maintain insurance for:

- motor-vehicle related bodily injury and property damage claims, covering all employees, owner operators and affiliates,
- workers compensation insurance coverage on our employees and company drivers, and
- general liability claims.

Our insurance program includes a self insured deductible of $5.0 million per incident for bodily injury and property damage and a $1.0 million deductible for workers compensation. In addition, we currently maintain an umbrella insurance policy covering claims in excess of $5 million, up to an aggregate loss of $40 million per incident. The $5 million deductible per incident could adversely affect our profitability, particularly in the event of an increase in the number or severity of incidents. Additionally, we are self-insured for damage to the equipment that we own and lease, for cargo losses, and for non-trucking pollution legal liability and such self-insurance is not subject to any maximum limitation. We extend insurance coverage to our affiliates for (i) motor vehicle related bodily injury, (ii) property damage, (iii) general liability coverage, and (iv) cargo loss and damage. Under this extended coverage, affiliates are responsible for only a small portion of the applicable deductibles.

We are subject to changing conditions and pricing in the insurance marketplace and we cannot assure you that the cost or availability of various types of insurance may not change dramatically in the future. To the extent these costs cannot be passed on to our customers in increased freight rates, increases in insurance costs could reduce our future profitability and cash flow.

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The trucking industry is subject to regulation, and changes in trucking regulations may increase costs.

As a motor carrier, we are subject to regulation by the Federal Motor Carrier Safety Administration, or FMCSA, and the U.S. Department of Transportation or DOT, and by various state, federal and provincial agencies. These regulatory authorities exercise broad powers governing activities such as operating authority, safety, hours of service, hazardous materials transportation, financial reporting and acquisitions. There are additional regulations specifically relating to the trucking industry, including testing and specification of equipment, product-handling requirements and drug testing of drivers. The trucking industry is subject to possible regulatory and legislative changes that may affect the economics of the industry by requiring changes in operating practices or by changing the demand for common or contract carrier services or the cost of providing truckload services. Possible changes include:

- increasingly stringent environmental regulations,
- increasing control over the transportation of hazardous materials,
- changes in the hours-of-service regulations, which govern the amount of time a driver may drive in any specific period,
- onboard black box recorder devices,
- requirements leading to accelerated purchases of new trailers,
- mandatory limits on vehicle weight and size, and
- mandatory regulations imposed by the Department of Homeland Security.

From time to time, various legislative proposals are introduced, including proposals to increase federal, state, or local taxes, including taxes on motor fuels, which may increase our costs or adversely impact the recruitment of drivers.

Increased unionization could increase our operating costs or constrain operating flexibility.

Although only approximately 4.4% of our driver workforce, including owner-operators and employees of affiliates, is currently subject to collective bargaining agreements, unions such as the International Brotherhood of Teamsters have traditionally been active in the U.S. trucking industry. Unionized workers could disrupt our operations by strike, work stoppage or other slowdown. In addition, our non-union workforce has been subject to unionization efforts in the past, and we could be subject to future unionization. Increased unionization of our workforce could result in higher compensation and working condition demands that could increase our operating costs or constrain our operating flexibility.

Our operations involve hazardous materials, which could create environmental liabilities.

Our activities, particularly those relating to our handling, transporting and storage of bulk chemicals, are subject to environmental, health and safety laws and regulation by governmental authorities in the United States as well as foreign governmental authorities. Among other things, those environmental laws address emissions to the air, discharges to land or water, the generation, handling, storage, transportation, treatment and disposal of waste materials, and the health and safety of our employees. These laws generally require us to obtain and maintain various licenses and permits. Most environmental laws provide for substantial fines and potential criminal sanctions for violations. Environmental laws and regulations are complex, change frequently and have tended to become stricter over time. Some of these laws and regulations are subject to varying and conflicting interpretations. There can be no assurance that violations of such laws or regulations will not be identified or occur in the future, or that such laws and regulations will not change in a manner that could impose material costs on us.

As a handler of hazardous substances, we are potentially subject to strict, joint and several liability for investigating and rectifying the consequences of spills and other environmental releases of these substances. We have incurred remedial costs and regulatory penalties for chemical or wastewater spills and releases at our

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facilities or over the road, and, notwithstanding the existence of our environmental management program and insurance applicable to these risks, we expect that additional similar obligations will be incurred in the future. As a result of environmental studies conducted at our facilities or at third party sites, we have identified environmental contamination at certain sites that will require remediation and we are currently conducting investigation and remediation projects at eight of our facilities. Future liabilities and costs under environmental, health, and safety laws are not easily predicted, and such liabilities could result in a material adverse effect on our financial condition, results of operations or business reputation.

In addition, we have been named a potentially responsible party at various sites under the Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended and other similar state statutes including the Lower Passaic River Study Area in New Jersey, the Malone Superfund Site in Texas, and at two Quanta Resources sites in New York. Our current reserves provided for these sites may prove insufficient, which would result in future charges against earnings. Further, we could be named a PRP at other sites in the future and the costs associated with such future sites could be material.

Potential disruptions at U.S. ports of entry could adversely affect our business, financial condition and results of operations.

Any disruption of the delivery of ISO tank containers to those ports where we do business would reduce the number of ISO tank containers that we transport, store, clean or maintain. This reduced activity may have a material adverse effect on our operations.

If fuel prices increase significantly, our results of operations could be adversely affected.

We are subject to risk with respect to purchases of fuel. Prices and availability of petroleum products are subject to political, economic and market factors that are generally outside our control. Political events in the Middle East, Venezuela, and elsewhere, as well as hurricanes and other weather-related events, also may cause the price of fuel to increase. Because our operations are dependent upon diesel fuel, significant increases in diesel fuel costs could materially and adversely affect our results of operations and financial condition if we are unable to pass increased costs on to customers through rate increases or fuel surcharges. Historically, we have recovered the majority of the increases in fuel prices from customers through fuel surcharges. Fuel surcharges that can be collected may not always fully offset the increase in the cost of diesel fuel. To the extent fuel surcharges are insufficient to offset our fuel costs, our results of operations may be adversely affected.

Our substantial leverage and restrictions contained in our debt agreements, including our credit facility and our indentures, could hamper our operations.

At December 31, 2007, we had consolidated long-term indebtedness, including current maturities of long-term debt, of $353.7 million. The amount of our indebtedness could have important consequences, including the following:

- using a portion of our cash flow to pay interest on our indebtedness will reduce the availability of our cash flow to fund working capital, capital expenditures and other business activities,
- it increases our vulnerability to adverse economic and industry conditions,
- it limits our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate,
- it limits our ability in making strategic acquisitions or exploiting business opportunities, and
- it limits our operational flexibility, including our ability to borrow additional funds.

Our variable interest rate debt was $219.1 million as of December 31, 2007. Therefore, increases in market rates of interest will increase our interest expense, which would decrease our earnings. A 1% increase in the interest rate for our variable debt would increase our annual interest expense by approximately $2.2 million.

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The loss of one or more significant customers may adversely affect our business.

We are dependent upon a limited number of large customers. Our top ten customers accounted for approximately 34.1% of our total revenues during 2007. In particular, our largest customer, Dow Chemical Company, accounted for 8.3% of our total revenues during 2007. The loss of Dow Chemical Company or one or more of our other major customers, or a material reduction in services performed for such customers, may have a material adverse effect on our results of operations.

Our business may be harmed by terrorist attacks, future war or anti-terrorism measures.

In the aftermath of the terrorist attacks of September 11, 2001, federal, state and municipal authorities have implemented and are implementing various security measures, including checkpoints and travel restrictions on large trucks and fingerprinting of drivers in connection with new hazardous materials endorsements on their licenses. Such existing measures and future measures may have significant costs associated with them which a motor carrier is forced to bear. Moreover, large trucks carrying toxic chemicals are a potential terrorist target, and we will be obligated to take measures, including possible capital expenditures, to harden our trucks. In addition, the insurance premiums charged for some or all of the coverage currently maintained by us could continue to increase dramatically or such coverage could be unavailable in the future.

Although we expect the Boasso acquisition to be beneficial, its expected benefits may not be realized, in the time frame anticipated or at all, because of integration or other challenges and we may become liable for liabilities of which we are currently unaware.

Achieving the expected benefits of the Boasso acquisition will depend on the timely and efficient integration of Boasso s operations, business culture, technology and personnel with our Company. The integration may not be completed as quickly as expected, and if we fail to effectively integrate the companies or the integration takes longer than expected, we may not achieve the expected benefits of the acquisition. The challenges involved in this integration include, among others:

- potential disruption on our ongoing business and distraction of management,
- unexpected loss of key employees or customers of Boasso,
- conforming Boasso s standards, processes, procedures and controls with our operations,
- hiring additional management and other critical personnel, and
- increasing the scope, geographic diversity and complexity of our operations.

We conducted a due diligence investigation of Boasso s operations prior to agreeing to acquire Boasso. However, we cannot assure you that our efforts were sufficient to uncover all material information concerning such operations. As a result, we may be held liable for risks and liabilities (including for environmental-related costs or liabilities) as a result of such acquisition which we are not aware of at the present time, some of which may not have been discoverable from our due diligence efforts.

Boasso s operations also depend upon a limited number of large customers. For its fiscal year ended March 31, 2007, four customers accounted for approximately 42% of their total revenues. Boasso s largest customer, Stolt-Nielsen S.A. accounted for approximately 19% of its total revenues. The loss of Stolt-Nielsen S.A. or one or more of Boasso s other major customers, or a material reduction in services performed for such customers, may have a material adverse effect on Boasso s results of operations.

Boasso s ability to successfully implement its business strategy and to operate profitably depends in large part on the continued employment of its management team. If members of management become unable or unwilling to continue in their present capacity, our business or financial results could be adversely affected.

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We depend on members of our senior management.

We believe that our ability to successfully implement our business strategy and to operate profitably depends in large part on the continued employment of our senior management team. If members of senior management become unable or unwilling to continue in their present positions, our business or financial results could be adversely affected.

Interests of Apollo may conflict with your interests.

At March 1, 2008, Apollo owned or controlled approximately 54.7% of our common stock and approximately 46.6% of our common stock on a fully diluted basis. As a result, Apollo can influence substantially all matters requiring shareholder approval, including the election of directors, the approval of significant corporate transactions, such as acquisitions, the ability to block an unsolicited tender offer and any other matter requiring a vote of shareholders. The interests of Apollo may conflict with your interests. For example, if we encounter financial difficulties, or are unable to pay our debts as they mature, Apollo may have an interest in pursuing acquisitions, divestitures, financings or other transactions that, in their judgment, could enhance their equity investment, even though these transactions might involve risk to our shareholders or debt holders. Similarly, if our financial performance and creditworthiness significantly improve in the future, Apollo may have an interest in pursuing reorganizations, restructurings, or other transactions that could increase our leverage or impair our creditworthiness or otherwise, in their judgment, enhance Apollo s equity investment in QDI, even though these transactions might involve risk to our shareholders or debtholders.

We may be unable to identify or realize the intended benefits of other potential acquisition candidates

As part of our business strategy, we will evaluate other potential acquisitions, some of which could be material, and engage in discussions with acquisition candidates. We cannot assure you that suitable acquisition candidates will be identified and acquired in the future, that the financing of any such acquisition will be available on satisfactory terms, that we will be able to complete any such acquisition or that we will be able to accomplish our strategic objectives as a result of any such acquisition. Nor can we assure you that our acquisition strategies will be successfully received by customers or achieve their intended benefits. Often acquisitions are undertaken to improve operating results of either or both of the acquirer or the acquired company, and we cannot assure you that we will be successful in this regard. We will encounter various risks in acquiring other companies, including the possible inability to integrate an acquired business into our operations, diversion of management s attention and unanticipated problems or liabilities, some or all of which could materially and adversely affect our business, financial condition or results of operations.

Risks Related to our Common Stock

We have a majority shareholder who can substantially influence the outcome of all matters voted upon by our shareholders and prevent actions which a shareholder may otherwise view favorably.

As of March 1, 2008, Apollo and its affiliated funds owned or controlled approximately 54.7% of our outstanding common stock. As a result, Apollo can influence substantially all matters requiring shareholder approval, including the election of directors, the approval of significant corporate transactions, such as acquisitions, the ability to block an unsolicited tender offer and any other matter requiring a vote of shareholders. This concentration of ownership could delay, defer or prevent a change in control of our Company or impede a merger, consolidation, takeover or other business combination which a shareholder, may otherwise view favorably.

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Our ability to issue blank check preferred stock and Florida law may prevent a change in control of our Company that a shareholder may consider favorable.

Provisions of our articles of incorporation and Florida law may discourage, delay or prevent a change in control of our Company that a shareholder may consider favorable. These provisions include:

- authorization of the issuance of blank check preferred stock that could be issued by our Board of Directors to increase the number of outstanding shares in order to control a takeover attempt which the Board viewed unfavorably,
- elimination of the voting rights of shareholders with respect to shares that are acquired without prior Board approval that would otherwise entitle such shareholder to exercise certain amounts of voting power in the election of directors, and
- prohibition on business combinations with interested shareholders unless particular conditions are met.

As a result, these provisions could limit the price that investors are willing to pay in the future for shares of our common stock.

Future sales of our common stock in the public market may depress our stock price.

The market price of our common stock could decline as a result of sales by our existing shareholders of a large number of shares of our common stock. These sales might also make it more difficult for us to sell additional equity securities at a time and price that we deem appropriate. As of March 1, 2008, there are approximately 19.3 million shares of common stock outstanding. Approximately 11.1 million shares of common stock are either restricted securities or affiliate securities as defined in Rule 144 under the Securities Act of 1933. In addition, we have an effective shelf-registration statement on Form S-3 that would permit us to sell, from time to time, in a public offering up to 6 million newly issued shares of common stock and enables Apollo and other parties to publicly resell up to 10.5 million shares of the our common stock held by such parties.

In addition, as of March 1, 2008, we have 3.9 million shares of common stock registered for issuance under our stock option plan. Options representing 3.0 million shares were outstanding as of March 1, 2008.

We currently do not intend to pay dividends on our common stock.

We do not expect to pay dividends on our common stock in the foreseeable future. In addition, the agreements and indentures governing our indebtedness restrict our ability to pay dividends. Accordingly, the price of our common stock must appreciate in order to realize a gain on your investment. This may not occur.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Currently we lease approximately 68,000 square feet for our administrative and corporate office headquarters in Tampa, Florida. The lease for our corporate headquarters expires in December 2017. Boasso s corporate headquarters, located in Chalmette, Louisiana, consists of 20,000 square feet of office space. The lease expires April 2013.

We have no other location that is material to our operations. We engage in bulk transportation of liquid and dry chemical products through our subsidiary, QCI. Our tank wash business is operated through our subsidiary, QSI. Our ISO depot services are operated through our subsidiaries, Quality Container Services (QCS) and Boasso.

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As of December 31, 2007, our terminals and facilities consisted of the following:

	Terminals Operated	Physical Locations	Owned by QCI
QCI trucking terminals	66	63	21
QSI tank wash facilities	36	22	14
QCI Affiliate trucking terminals *	55	45	2
QSI Affiliate tank wash facilities	2	1	0
QCS ISO depot services	4	3	1
Boasso ISO depot services	6	6	0
Total	169	140	38

* Affiliates operate 11 tank wash facilities as part of their operations.

In many instances, we operate different types of terminals out of the same physical location. For example, one terminal also operates a separate physical location as a sub-terminal. We have excluded from the above totals, three Company transload terminals (includes two separate physical locations of which we own one location) and three affiliate transload terminals.

In addition to the properties listed above, we also own property in Mobile, Alabama; Croydon, Pennsylvania; Downingtown, Pennsylvania; Parker, Pennsylvania; Greensboro, North Carolina; Chesnee, South Carolina and Port Houston, Texas.

In addition to the properties listed above, we also have properties held-for-sale in Syracuse, New York and Spartanburg, South Carolina.

We consider our properties to be in good condition generally and believe that our facilities are adequate to meet our anticipated requirements.

ITEM 3. LEGAL PROCEEDINGS

In addition to those items disclosed under Item 1. Business Environmental Matters and Note 17 to our consolidated financial statements contained herein, Commitments and Contingencies Environmental Matters, we are from time to time involved in routine litigation incidental to the conduct of our business. We believe that no such routine litigation currently pending against us, if adversely determined, would have a material adverse effect on our consolidated financial position, results of operations or cash flows.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders during the fourth quarter of fiscal year 2007.

EXECUTIVE OFFICERS OF THE REGISTRANT

Our executive officers, as of March 1, 2008 are as follows:

Name	Age	Position
Gary R. Enzor	45	President and Chief Executive Officer
Dennis R. Copeland	58	Senior Vice President Administration
Jonathan C. Gold	44	Senior Vice President, General Counsel and Secretary
Virgil T. Leslie	53	Executive Vice President Sales
Timothy B. Page	55	Senior Vice President and Chief Financial Officer

Gary R. Enzor has served as our Chief Executive Officer since June 2007 and as President of QDI since November 2005. Mr. Enzor joined QDI in December 2004 as Executive Vice President and Chief Operating Officer. Prior to joining QDI, Mr. Enzor served as Executive Vice President and Chief Financial Officer of Swift Transportation Company, Inc. since August 2002. Prior to Swift, he served as the Vice President & Chief Financial Officer of Honeywell Aerospace Electronic Systems. Prior to Honeywell, Mr. Enzor worked for Dell Computer and Allied Signal.

Dennis R. Copeland has served as our Senior Vice President, Administration since April, 2001. He joined QDI in 1998 in connection with the acquisition of CLC, at which time he assumed the position of Vice President Labor Relations and Human Resources. From October 1988 until he joined QDI, Mr. Copeland served as Vice President of Human Resources and Labor Relations for CLC. Prior to that time, he held various management positions with Lukens Steel Company.

Jonathan C. Gold has served as QDI s Senior Vice President, General Counsel and Secretary since April 2007. Mr. Gold joined QDI in January 2005 as Vice President, Associate General Counsel and Assistant Secretary. Prior to his employment with the Company, Mr. Gold served as counsel with CSX Transportation Inc. (a transportation company that operates the largest railroad in the eastern United States) from February 2002 through January 2005. Prior to that, Mr. Gold served as Vice President, General Counsel and Secretary to Softmart Inc. and was in private practice in Washington, D.C. Mr. Gold also served as Judicial Clerk to the Honorable Harvey E. Schlesinger, Senior United States District Judge for the Middle District of Florida.

Virgil T. Leslie joined QDI in April 2000 and serves as QDI s Executive Vice President, Sales. Prior to joining QDI, he served as Vice President of Sales with Triple Crown Services in Ft. Wayne, Indiana. Mr. Leslie also spent 16 years with Roadway Express holding various sales and operating positions.

Timothy B. Page joined QDI in December 2004 as Senior Vice President and Chief Financial Officer. Prior to joining QDI, Mr. Page served as Chief Financial Officer of Perry Ellis International, Inc. since May 2001. From 1998 through 2001, Mr. Page was a private investor and entrepreneur in the telecommunications and industrial gas and specialty chemical industries. From 1989 through 1997, Mr. Page was a director of Farah, Inc., an apparel company, and served in various executive positions, including Executive Vice President and Chief Operational Officer.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER S PURCHASES OF EQUITY SECURITIES

Our common stock is traded on NASDAQ Global Market (NASDAQ) under the symbol QLTY . The table below sets forth the quarterly high and low sale prices for our common stock as reported on NASDAQ.

	Common Stock	
	High	Low
2007		
1st quarter	$ 13.06	$ 6.79
2nd quarter	11.35	8.50
3rd quarter	11.94	7.93
4th quarter	9.18	3.95
2006		
1st quarter	$ 14.00	$ 7.86
2nd quarter	17.37	11.32
3rd quarter	15.75	11.33
4th quarter	17.73	11.86

As of March 1, 2008, there were approximately 99 holders of record of our common stock.

DIVIDEND POLICY

We have not declared cash dividends on our common stock for the periods presented above and have no present intention of doing so. We currently intend to retain our future earnings, if any, to repay debt or to finance the further expansion and continued growth of our business. Our ability to pay dividends is also restricted by our credit agreements and indentures. Future dividends, if any, will be determined by our Board of Directors.

UNREGISTERED SALES OF EQUITY SECURITIES

On December 18, 2007, we issued a promissory note in the principal amount of $2.5 million (Boasso Note) for the benefit of Walter J. Boasso in connection with our acquisition of all the outstanding capital stock of Boasso as more fully described in Item 1 of Part 1. The Boasso Note has a term of two years, and the holder has the right to require that the Boasso Note be paid in full on the first anniversary of the acquisition. The Boasso Note is convertible into shares of our common stock following the first anniversary of the acquisition at the election of the holder at a price of $4.47 per share (the closing price of the shares reported on NASDAQ on the day before the acquisition). If the conversion option is exercised, we have the right, instead of issuing shares to pay the holder a cash amount equal to the number of shares of common stock into which the Boasso Note is then convertible multiplied by the 10-day trailing average closing price for the common stock plus any accrued and unpaid interest. We issued the Boasso Note in reliance upon the exemption from registration in Section 4(2) of the Securities Act of 1933 for the offer and sale of securities not involving a public offering because, among other things, the Boasso Note was issued to a single, accredited, sophisticated investor on terms negotiated as an integral part of the terms that were negotiated for our acquisition of all capital stock of Boasso.

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PERFORMANCE GRAPH

The following graph depicts a comparison of cumulative total shareholder returns for us as compared to the NASDAQ Trucking & Transportation Index and the NASDAQ Stock Market (U.S.) Index. The graph assumes the investment of $100 on November 7, 2003 (the date our stock began trading on the NASDAQ National Market) through December 31, 2007.

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ITEM 6. SELECTED FINANCIAL DATA

The selected historical consolidated financial information set forth below is qualified in its entirety by reference to, and should be read in conjunction with, our Consolidated Financial Statements and notes thereto included elsewhere in this report and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

The consolidated statements of operations data set forth below for the fiscal years ended December 31, 2007, 2006 and 2005 and the historical balance sheet data as of December 31, 2007 and 2006 are derived from our audited financial statements included under Item 8 of this report. The historical statements of operations data for the fiscal years ended December 31, 2004 and 2003 and the historical balance sheet data as of December 31, 2005, 2004 and 2003 are derived from our audited financial statements that are not included in this report.

In 2007, we changed our accounting policy for tires. The change was retroactively applied to prior period financial statements. Refer to Note 3 to the consolidated financial statements for the impact of the change for years 2005 through 2007. The impact to operating income and net loss were an increase of $0.2 million and decrease of $0.9 million for 2004 and 2003, respectively.

	YEAR ENDED DECEMBER 31				
	2007	2006 (As adjusted)	2005 (As adjusted)	2004 (As adjusted)	2003 (As adjusted)
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)				
Statements of Operations Data					
Operating revenues	$ 751,558	$ 730,159	$ 678,076	$ 622,015	$ 565,440
Operating expenses:					
Purchased transportation	471,531	493,686	471,238	420,565	360,303
Depreciation and amortization	17,544	16,353	17,278	23,266	29,671
Other operating expenses	238,630	171,842	149,741	162,936	157,590
Operating income (1)	23,853	48,278	39,819	15,248	17,876
Interest expense, net	(30,524)	(29,388)	(26,712)	(22,343)	(29,984)
Transaction fees					(700)
Interest expense, preferred stock conversion					(59,395)
Gain on debt extinguishment					4,733
Write-off of debt issuance costs	(2,031)		(1,110)		
Other (expense) income	(940)	(888)	222	(857)	(649)
Income (loss) before taxes	(9,642)	18,002	12,219	(7,952)	(68,119)
(Benefit from) provision for income taxes	(2,079)	(38,168)	352	2,421	(99)
Net (loss) income	(7,563)	56,170	11,867	(10,373)	(68,020)
Preferred stock dividends and accretions				(145)	(4,540)
Net (loss) income attributable to common shareholders	$ (7,563)	$ 56,170	$ 11,867	$ (10,518)	$ (72,560)
(Loss) income from continuing operations per share (2)					
Basic	$ (0.39)	$ 2.97	$ 0.63	$ (0.56)	$ (12.67)
Diluted	(0.39)	2.87	0.61	(0.56)	(12.67)
Weighted average common shares outstanding					
Basic	19,336	18,920	18,934	18,910	5,729
Diluted	19,336	19,571	19,301	18,910	5,729

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	YEAR ENDED DECEMBER 31				
	2007	2006 (As adjusted)	2005 (As adjusted)	2004 (As adjusted)	2003 (As adjusted)
	(DOLLARS IN THOUSANDS, EXCEPT TERMINAL, TRAILER AND TRACTOR DATA)				
Other Data					
Net cash provided by operating activities	$ 14,052	$ 28,236	$ 9,039	$ 15,945	$ 17,677
Net cash used in investing activities	(63,399)	(10,591)	(16,063)	(8,081)	(12,709)
Net cash provided by (used in) financing activities	52,194	(12,474)	5,858	(6,070)	(4,733)
Number of terminals at end of period (3)	169	165	165	161	156
Number of trailers operated at end of period (4)	7,506	7,769	7,461	7,377	8,253
Number of tractors operated at end of period	3,927	3,829	3,539	3,550	3,473
Balance Sheet Data at Year End:					
Working capital	$ 67,093	$ 59,673	$ 43,079	$ 4,926	$ (230)
Total assets	493,976	417,873	377,053	373,952	368,849
Total indebtedness, including current maturities	349,271	279,122	289,116	276,550	279,509
Shareholders equity (deficit)	27,300	31,774	(27,462)	(39,446)	(26,201)

(1) For the year ended December 31, 2003, operating income includes charges of $3.0 million relating to expenses or losses attributable to our operations prior to the 1998 acquisition of CLC for insurance claims and restructuring charges.

(2) Loss from continuing operations per share and weighted average common shares outstanding for all periods presented gives effect to the 1.7 for 1 stock split effected on November 4, 2003.

(3) Excludes transload facilities.

(4) Excludes trailers held-for-sale.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our results of operations and financial condition should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this report. The following discussion includes forward-looking statements. For a discussion of important factors that could cause actual results to differ from results discussed in the forward-looking statements, see Forward-Looking Statements and Certain Considerations contained in the Introduction to this report.

OVERVIEW

We operate the largest for-hire chemical bulk tank truck network in North America based on bulk service revenues, and we believe we have more than twice the revenues of our closest competitor in our primary chemical bulk transport market in the U.S. The bulk tank truck market in North America includes all products shipped by bulk tank truck carriers and consists primarily of liquid and dry bulk chemicals (which includes plastics) and bulk dry and liquid food-grade products. We primarily transport a broad range of chemical products and provide our customers with tank wash facilities, logistics and other value-added services. We are a core carrier for many of the Fortune 500 companies engaged in chemical processing, including Dow Chemical, Procter & Gamble, DuPont and PPG Industries, and we provide services to most of the top 100 chemical producers with U.S. operations.

Our revenue is principally a function of the volume of shipments by the bulk chemical industry, the number of miles driven per load, our market share, and the allocation of shipments between tank truck transportation and other modes of transportation such as rail. The volume of shipments of chemical products is, in turn, affected by many other industries, including consumer and industrial products, automotive, paints and coatings, and paper, and tends to vary with changing economic conditions. Additionally, we provide leasing, tank cleaning, logistics and transloading services.

Our bulk service network consists primarily of company operated terminals, independently owned third-party affiliate terminals and independent owner-operator drivers. Affiliates are independent companies we contract with to operate trucking terminals and tank washes exclusively on our behalf in defined markets. The affiliates provide the capital necessary to service their contracted business and are also responsible for most of the operating costs associated with servicing the contracted business. Owner-operators are generally individual drivers who own or lease their tractors and agree to drive exclusively for us and our affiliate partners. We believe the use of affiliates and independent owner-operators provides the following key competitive advantages to us in the marketplace:

- Locally owned and operated affiliate terminals can provide superior, tailored customer service.
- Affiliates and independent owner-operators are paid a fixed, contractual percentage of revenue for each load they transport creating a variable cost structure that provides protection against cyclical downturns.
- Reliance on affiliate and independent owner-operators creates an asset-light business model that generally reduces our capital investment.

We believe the most significant factors relevant to our future business growth are the ability to (i) obtain additional business from existing customers, (ii) acquire existing transportation related businesses in strategic markets, (iii) add new customers, and (iv) recruit and retain drivers. Revenue has been partially driven by pricing increases and we expect pricing increases to continue to positively impact our revenue growth. However, the trucking industry has experienced a slowdown in recent months due to slowing economic conditions. While a number of our customers operate their own private tank truck fleets and many of our customers source some of their logistics needs with rail, we expect our customers to continue to outsource a greater proportion of their logistics needs to full service tank truck carriers. As a result of our leading market position, strong customer relationships and flexible business model, we believe we are well-positioned to benefit from customers seeking consolidation of their shipping relationships and those opting to outsource a greater portion of their logistics needs to third-party tank truck carriers.

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To facilitate this growth, in December 2007 we acquired all of the outstanding capital stock of Boasso America Corporation (Boasso) for an aggregate purchase price of (i) $58.8 million in cash less the outstanding long-term indebtedness of Boasso, subject to a working capital adjustment, and (ii) a $2.5 million 7% promissory note with a two-year maturity for the benefit of Boasso s principal stockholder, Walter J. Boasso (the Boasso Note) excluding fees and direct costs.

Boasso is the leading provider of International Organization for Standardization, or ISO, tank container transportation and depot services in North America. The ISO tank container business generally provides services that facilitate the global movement of liquid and dry bulk chemicals, pharmaceuticals and food grade products. The ISO tank container transportation market has experienced significant recent growth as chemical manufacturers move towards greater utilization of ISO tank containers to efficiently transport their products around the world via sea, land and air. In addition to further enhancing our scope of services, we believe there are synergies to be achieved from the Boasso acquisition, including lower insurance cost for the Boasso business and reduction of duplicative overhead and facilities.

Beginning in 2005 under the direction of a new senior management team, we implemented several major strategic initiatives designed to enhance our operating flexibility, upgrade and standardize our business processes, improve customer service and increase profitability.

Opportunistic Affiliate Conversions. We intend to continue to focus on a less capital intensive business model based on affiliates and owner-operators. However, we continually evaluate our mix of affiliate and company terminals to optimize customer service, revenue growth, profitability and return on investment. In situations where we can more efficiently operate facilities than the relevant affiliate, we may endeavor to purchase this affiliate s business to enhance our profitability and position us for better growth in key markets while maintaining our asset-light structure through the use of owner-operators at company owned terminals.

Continued Focus on Safety and Training. We have made safety the main focus of our organization. We have developed comprehensive programs to further focus our safety procedures and benchmark us against the best in the industry. Tangible results of this focus have already manifested themselves in decreasing at-fault accident frequencies. We also instituted a training program for terminal, field and headquarters personnel to augment our existing driver training and have began providing extensive technical and interpersonal training to all dispatchers, terminal managers, and supervisors.

Focus on Driver Recruitment and Retention. Our recruitment and retention effort is focused on providing drivers a welcoming opportunity with competitive compensation, an emphasis on professional development and an understanding that most drivers first priority is getting home safely to their families. Over the past four years we reduced driver turnover from 61% to approximately 49%, which we believe is well below the truckload industry average. We are committed to being a driver-focused company that provides both technical support and personal respect to these professionals. We offer competitive compensation, encourage input from our drivers when making business decisions, and utilize full-time customer service professionals who conduct both in-bound and out-bound calls to ensure driver satisfaction. Our driver organization contains field-based recruiters who augment the friendly, small business environment provided by our business model.

Expand Scope of Service Capabilities. We plan to continue to expand the scope of our service capabilities in order to serve the growing needs of our customer base. As our customers continue to focus on their core businesses, we believe that they will increasingly rely on primary service transportation companies to provide value-added services such as intermodal, tank cleaning and logistics services. Two initiatives to expand our service capabilities include the following:

Strengthen our Tank Wash Business

Over the past year, we have substantially improved our company owned tank wash facilities, installed new senior managers, trained staff and upgraded our safety program. We are focused on expanding this business by motivating our drivers, our affiliates drivers and third-party carriers to utilize our tank wash facilities and lessen usage of third party wash businesses. In 2007, we acquired Brite Clean, a tank wash operation that is expected to contribute approximately $12 million in revenue in 2008. This acquisition further strengthened our leading market position in the tank wash business.

Expand ISO Tank Container Business

We currently participate in the ISO tank container business by providing transportation services and with the Boasso acquisition, we are now the market leader in the ISO tank container transportation and depot services business in North America. We believe that growing our ISO tank container depot business offers us the opportunity to expand our service offerings to many of our existing customers and to capitalize on this fast-growing segment which is being driven by the recent trend towards the globalization of petro-chemical manufacturing capacity.

Optimize Network. We are in the process of implementing several initiatives expected to increase profitability by minimizing the number of empty miles driven by our drivers. We do this by encouraging our affiliates and owner-operators to pursue additional revenue opportunities in their respective markets thereby increasing asset utilization. For example, we intend to move our pricing towards a revenue per mile compensation structure with our owner-operators instead of the existing percentage of revenue structure. We believe this change will help align owner-operators interests with ours and encourage them to increase load counts and improve backhaul rates resulting in increased revenue and operating income. Additionally, where necessary and when economically appropriate, we have expanded our company-owned transportation capacity by investing in new trailers through various methods, including purchases and leases.

Targeted Acquisitions. Our industry is highly fragmented, providing us with the opportunity to grow our distribution network and further develop our tank wash business through acquisitions. Smaller chemical bulk transport operators are seeking to strengthen their competitive position by becoming part of a larger service network. We believe that we are favorably positioned to benefit from this trend. In early 2006, we acquired two transportation companies for $4.1 million. In 2007, we acquired Brite Clean for $2.5 million, a small tank truck carrier for $0.5 million, and Boasso for $58.8 million. We expect these acquired businesses to generate approximately $90.0 million in revenue in 2008. We intend to continue pursuing attractive acquisition opportunities that augment our position in key markets at attractive multiples.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with United States generally accepted accounting principles (GAAP). We believe the following are the more critical accounting policies that impact the financial statements, some of which are based on management s best estimates available at the time of preparation. Actual future experience may differ from these estimates.

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Property and equipment Property and equipment expenditures, including tractor and trailer rebuilds that extend the useful lives of such equipment, are capitalized and recorded at cost. For financial statement purposes, these assets are depreciated using the straight-line method over the estimated useful lives of the assets to an estimated salvage value.

The asset lives used are presented in the following table:

	Average Lives (in years)
Buildings and improvements	10 - 25
Tractors and terminal equipment	5 - 7
Trailers	15 - 20
Furniture and fixtures	3 - 5
Other equipment	3 - 10

Tractor and trailer rebuilds, which are recurring in nature and extend the lives of the related assets, are capitalized and depreciated over the period of extension, generally 3 to 10 years, based on the type and extent of these rebuilds. Maintenance and repairs are charged directly to expense as incurred. Management estimates the useful lives of these assets based on historical trends and the age of the assets when placed in service. Any changes in the actual lives could result in material changes in the net book value of these assets. Additionally, we estimate the salvage values of these assets based on historical sales of disposals, and any changes in the actual salvage values could also affect the net book value of these assets.

Furthermore, we evaluate the recoverability of our long-lived assets whenever adverse events or changes in the business climate indicate that the expected undiscounted future cash flows from the related asset may be less than previously anticipated. If the net book value of the related asset exceeds the undiscounted future cash flows of the asset, the carrying amount would be reduced to the present value of its expected future cash flows and an impairment loss would be recognized. This analysis requires us to make significant estimates and assumptions in projecting future cash flows, and changes in facts and circumstances could result in material changes in the amount of any write-offs for impairment.

Goodwill Goodwill is reviewed for impairment annually and whenever events or circumstances indicate that the book value of the asset may not be recoverable. We periodically evaluate whether events or circumstances indicate possible impairment. We identified three reporting units: transportation operations, insurance operations and foreign operations. We allocated goodwill to the transportation operation as it principally resulted from the acquisition of Chemical Leaman Corporation in 1998. If the fair value of the reporting unit is less than its carrying amount, an impairment loss is recorded to the extent the carrying amount of the goodwill within the reporting unit is greater than the implied fair value of goodwill. We performed our annual assessment during the second quarter of fiscal year 2007. We used a combination of discounted cash flows and valuation of our capital structure to estimate the fair value. Projections for future cash flows were based on our recent operating trends and projected average growth rate for revenue of approximately 5.2% over 5 years. The discount rate used to discount cash flows was based on our weighted average cost of capital of approximately 12.1%. Even if our revenue projections were to decline by 10%, we would not have an impairment of our goodwill. If actual cash flows turn out to be significantly less than projections, then the impairment analysis could change, possibly resulting in future impairment charges.

Deferred Tax Asset We use the liability method of accounting for income taxes as prescribed by SFAS No. 109. Significant management judgment is required in determining the provision for income taxes and, in particular, any valuation allowance that is recorded or released against our deferred tax assets.

During 2006, we released approximately $45.8 million of our deferred tax valuation allowance based on our assessment that it was more likely than not that those deferred tax assets will be realizable based on income projections of future taxable income and the expiration dates and amounts of net operating loss carryforwards.

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These estimates of projected taxable income include price and volume increases as well as expected expansion of market share. These projections are based on assumptions which management believes to be reasonable and consistent with current operating results although the actual results achieved may differ materially from these projections.

We continue to evaluate quarterly, the positive and negative evidence regarding the realization of net deferred tax assets in accordance with SFAS No. 109, Accounting for Income Taxes. Included in this assessment are estimates of projected future taxable income. Significant management judgment is required in this process and although realization is not assured, based on our assessment, we concluded it is more likely than not, such assets will continue to be realized.

At December 31, 2006 positive evidence included having achieved profitability for financial reporting purposes for eight consecutive quarters beginning with the first quarter of fiscal 2005. Additionally, we were no longer in a U.S. cumulative loss position at the third quarter of fiscal 2006. We determine cumulative losses on a rolling thirty-six months basis.

We project both aggregate U.S. pre-tax income as well as aggregate U.S. taxable income for the years 2008 through 2011 sufficient to absorb $86 million of the $94 million existing net operating loss carryforwards. At December 31, 2007 we had estimated $94 million in federal net operating loss carryforwards, $2.6 million in alternative minimum tax credit carryforwards and $2.6 million in foreign tax credit carryforwards. The net operating loss carryforwards will expire in the years 2018 through 2027, while the alternative minimum tax credits may be carried forward indefinitely and the foreign tax credits may be carried forward for ten years. We do not have a history of net operating loss or tax credit carryforwards expiring unused; however, we have determined based on the weight of available evidence that it is more likely than not that some portion of our $2.6 million foreign tax credits may not be realized. As a result we have established a valuation allowance of $1.6 million against our foreign tax credit deferred tax asset.

We continue to believe it is more likely than not that the net deferred tax assets will be realizable because we are projecting positive future taxable income through 2011 sufficient to absorb $86 million of our $94 million net operating loss carryforwards. We will continue to review our forecast quarterly in relation to actual results and expected trends on an ongoing basis. Failure to achieve our operating income targets may change our assessment regarding the recoverability of our net deferred tax assets and such change could result in a valuation allowance being recorded against some or all of our deferred tax assets. Any increase in a valuation allowance would result in additional income tax expense.

Environmental liabilities We have reserved for potential environmental liabilities based on the best estimates of potential clean-up and remediation for known environmental sites. We employ a staff of environmental professionals to administer all phases of our environmental programs and use outside experts where needed. These professionals develop estimates of potential liabilities at these sites based on projected and known remediation costs. These cost projections are determined through previous experiences with other sites and through bids from third-party contractors. Management believes current reserves are reasonable based on current information.

Accident claims reserves We currently maintain liability insurance for bodily injury and property damage claims, covering all employees, owner-operators and affiliates, and workers compensation insurance coverage on our employees and company drivers. This insurance includes deductibles of $5 million per incident for bodily injury and property damage and $1 million for workers compensation for periods after September 15, 2002. As such, we are subject to liability as a self-insurer to the extent of these deductibles under the policy. We are self-insured for damage to the equipment we own or lease, and for cargo losses. In developing liability reserves, we rely on professional third party claims administrators, insurance company estimates and the judgment of our own safety department personnel, and independent professional actuaries and attorneys. The most significant assumptions used in the estimation process include determining the trends in loss costs, the expected consistency in the frequency and severity of claims incurred but not yet reported to prior year claims and expected costs to settle unpaid claims. Management believes reserves are reasonable given known information, but as each case develops, estimates may change to reflect the effect of new information.

Revenue recognition Transportation revenues, including fuel surcharges and related costs are recognized on the date the freight is delivered. Other service revenues, consisting primarily of lease revenues from affiliates, owner-operators and third parties, are recognized ratably over the lease period. Tank wash revenues are recognized when the wash is completed. Service revenues on insurance policies are recorded as a contractual percentage of premiums received ratably over the period that the insurance covers. We have recognized all revenues on a gross basis as the principal and primary obligor with risk of loss in relation to our responsibility for completion of services as contracted by our customers.

Allowance for uncollectible receivables The allowance for all potentially uncollectible receivables is based on a combination of historical data, cash payment trends, specific customer issues, write-off trends, general economic conditions and other factors. These factors are continuously monitored by our management to arrive at the estimate for the amount of accounts receivable that may be ultimately uncollectible. The receivables analyzed include trade receivables, as well as loans and advances made to owner-operators and affiliates. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, an additional allowance could be required. Absent a change in our collection efforts, a $50 million increase in our receivables (aged less than 30 days) resulting from transportation billings would increase our allowance for uncollectible receivables by less than $0.2 million.

Stock compensation plans Stock compensation is determined by the assumptions required under Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (SFAS 123(R)). The fair values of stock option grants are based upon the Black-Scholes option-pricing model and amortized as compensation expense on a straight-line basis over the vesting period of the grants. Restricted stock awards are issued and measured at market value on the date of grant and related compensation expense is recognized over time using graded vesting, which accelerates compensation expense into the first two years of the four year vesting period. Stock-based compensation expense related to stock options and restricted stock was $1.1 million and $0.4 million, respectively, for fiscal year 2007. As of December 31, 2007, there was approximately $2.7 million of total unrecognized compensation cost related to the unvested portion of our stock-based awards. The recognition period for the remaining unrecognized stock-based compensation cost is approximately four years. For further discussion on stock-based compensation, see Note 16 of Notes to Consolidated Financial Statements included in Item 15 of this report.

Pension plans We maintain two noncontributory defined-benefit plans resulting from a prior acquisition that cover certain full-time salaried employees and certain other employees under a collective bargaining agreement. Both plans are frozen and, as such, no future benefits accrue. We record annual amounts relating to these plans based on calculations specified by GAAP, which include various actuarial assumptions such as discount rates (5.50% to 5.75%) and assumed rates of return (7.50% to 8.00%) depending on the pension plan. Material changes in pension costs may occur in the future due to changes in these assumptions. Future annual amounts could be impacted by changes in the discount rate, changes in the expected long-term rate of return, changes in the level of contributions to the plans and other factors.

The discount rate is based on a model portfolio of AA rated bonds with a maturity matched to the estimated payouts of future pension benefits. The expected return on plan assets is based on our expectation of the long-term rates of return on each asset class based on the current asset mix of the funds, considering the historical returns earned on the type of assets in the funds, plus an assumption of future inflation. The current investment policy target asset allocation differs between our two plans, but it is between 50% to 67% for equities and 33% to 50% for bonds. The current inflation assumption is 3.00%. We review our actuarial assumptions on an annual basis and make modifications to the assumptions based on current rates and trends when appropriate. The effects of the modifications are amortized over future periods.

Assumed discount rates and expected return on plan assets have a significant effect on the amounts reported for the pension plan. At December 31, 2007, our projected benefit obligation (PBO) was $45.8 million. Our projected 2007 net periodic pension expense is $189,000. A 1.0% decrease in our assumed discount rate would increase our PBO to $50.6 million and decrease our 2007 net periodic pension expense to $169,000. A 1.0% increase in our assumed discount rate would decrease our PBO to $41.8 million and increase our 2007 net periodic pension expense to $191,000. A 1.0% decrease in our assumed rate of return would not change our PBO but would increase our 2007 net periodic pension expense to $596,000. A 1.0% increase in our assumed rate of return would not change our PBO but would decrease our 2007 net periodic pension expense to a credit of $219,000.

CHANGE IN ACCOUNTING POLICY

During the fourth quarter of 2007, we changed our accounting policy for tires. Prior to this change, the cost of original and replacement tires mounted on equipment was reported as prepaid tires and depreciated based on estimated usage. Under the new policy, we capitalize the cost of tires mounted on purchased revenue equipment as a part of the total equipment cost and depreciate the cost over the useful life of the related equipment. Subsequent replacement tires are expensed at the time those tires are placed in service similar to other repairs and maintenance costs. We believe that this new policy is preferable under the circumstances because it provides a more precise and less subjective method for recognizing expenses related to tires that is consistent with industry practice. Under SFAS 154, Accounting Changes and Error Corrections, we are required to report a change in accounting policy by retrospectively applying the new policy to all prior periods presented, unless it is impractical to determine the prior-period effect. Accordingly, we have adjusted our previously reported financial information for all periods presented. Refer to Note 3 of our consolidated financial statements for the financial impact of this change.

NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 establishes a common definition for fair value to be applied to U.S. GAAP guidance requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB decided to issue a final Staff Position to allow a one-year deferral of adoption of SFAS 157 for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The FASB also decided to amend SFAS 157 to exclude FASB Statement No. 13 and its related interpretive accounting pronouncements that address leasing transactions. The Company is currently evaluating the expected impact on its financial statements of adopting SFAS 157.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*, (SFAS 159) which permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 also includes an amendment to SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, which applies to all entities with available-for-sale and trading securities. This statement is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. We are currently evaluating the impact of this standard on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS 141R). This statement significantly changes the financial accounting and reporting of business combination transactions. The provisions of this statement are to be applied prospectively to business combination transactions in the first annual reporting period beginning on or after December 15, 2008. The impact of adopting SFAS 141R will depend on the nature, terms and size of business combinations completed after the effective date.

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In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51* (SFAS 160). SFAS 160 establishes accounting and reporting standards for noncontrolling interests in subsidiaries. This statement requires the reporting of all noncontrolling interests as a separate component of stockholders equity, the reporting of consolidated net income (loss) as the amount attributable to both the parent and the noncontrolling interests and the separate disclosure of net income (loss) attributable to the parent and to the noncontrolling interests. In addition, this statement provides accounting and reporting guidance related to changes in noncontrolling ownership interests. Other than the reporting requirements described above which require retrospective application, the provisions of SFAS 160 are to be applied prospectively in the first annual reporting period beginning on or after December 15, 2008. We are currently evaluating the impact of this standard on our consolidated financial statements.

RESULTS OF OPERATIONS

The following table sets forth for the periods indicated the percentage of total revenue represented by certain items in our Consolidated Statements of Operations:

	Year Ended December 31,		
	2007	2006 (As adjusted)	2005 (As adjusted)
OPERATING REVENUES:			
Transportation	77.3%	79.1%	80.6%
Other service revenue	10.1	9.1	9.9
Fuel surcharge	12.6	11.8	9.5
Total operating revenues	100.0	100.0	100.0
OPERATING EXPENSES:			
Purchased transportation	62.7	67.6	69.5
Compensation	11.4	10.0	9.2
Fuel, supplies and maintenance	10.8	7.3	5.2
Depreciation and amortization	2.3	2.2	2.6
Selling and administrative	4.2	3.3	3.0
Insurance claims	3.2	1.8	2.8
Taxes and licenses	0.5	0.5	0.4
Communication and utilities	1.5	1.2	1.2
Loss (gain) on disposal of property and equipment	0.1	(0.7)	
Impairment on property and equipment			
PPI class action settlement and related expenses			0.2
Total operating expenses	96.7	93.2	94.1
Operating income	3.3	6.8	5.9
Interest expense, net	(4.1)	(4.0)	(3.8)
Write-off of debt issuance costs	(0.3)		(0.2)
Other (expense)	(0.1)	(0.2)	
(Loss) income before income taxes	(1.2)	2.6	1.9
(Benefit from) provision for income taxes	(0.3)	(5.2)	0.1
Net (loss) income	(0.9)	7.8	1.8

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The following table sets forth for the periods indicated the number of terminals, tractors and trailers utilized in our business (including affiliates and owner-operators) as of December 31:

	2007	2006	2005
Terminals *	169	165	165
Number of Drivers	3,486	3,396	3,244
Trailers **	7,506	7,769	7,461
Tractors ***	3,927	3,829	3,539
Transportation billed miles (in thousands)	154,340	157,586	151,838

* excludes transload facilities.
** excludes 151, 235 and 384 trailers that are held-for-sale as of December 31, 2007, 2006 and 2005, respectively.
*** excludes 45 tractors held as inventory for sale as of December 31, 2006.

YEAR ENDED DECEMBER 31, 2007 COMPARED TO YEAR ENDED DECEMBER 31, 2006

Total revenues for 2007 were $751.6 million, an increase of $21.4 million or 2.9%, compared to 2006 revenues. Transportation revenue increased by $3.4 million or 0.6% compared to 2006. The increase in transportation revenue is primarily attributable to rate increases offset by a decrease in the number of loads.

Other service revenue increased by $9.6 million or 14.4% in 2007 versus 2006. This was primarily due to a $2.8 million increase in rental revenue, a $2.8 million increase from tank wash revenue, and $2.3 million due to the acquisition of Boasso. Fuel surcharge revenue increased $8.4 million from 2006 as a result of higher average fuel prices. Approximately 85% of the fuel surcharge revenue is reflected in Purchased transportation and was paid to our affiliates and company owner-operators during 2007 while the remaining company costs offset by the fuel surcharge are reflected in Fuel, supplies and maintenance.

We managed a total of approximately 7,500 trailers and 3,900 tractors at the end of 2007 compared to 7,800 trailers and 3,800 tractors at December 31, 2006. The decrease in tractors and trailers is the result of management s decision to sell off older models and equipment that would require significant repair. We expect to either purchase or lease additional tractors and trailers in 2008.

Operating expenses totaled $727.7 million in 2007, an increase of $45.8 million or 6.7% from 2006. The increase in operating expenses was primarily attributable to a $28.0 million increase in fuel, supplies and maintenance, a $12.6 million increase in compensation, a $10.5 million increase in insurance claims, a $6.9 million increase in selling and administrative expenses and $0.6 million losses from the disposals of terminal assets and sales of tractors compared to $5.2 million net gains that resulted in 2006, partially offset by a decrease of $22.2 million in purchased transportation.

The decrease over the prior year in purchased transportation is primarily due in part to a shift of our transportation business from affiliates to company operations. We pay our affiliates approximately 85% of the transportation revenue while we pay company owner-operators approximately 62% of the transportation revenue. Since we pay our affiliates a greater percentage of revenues generated by them than is paid to company owner-operators, our purchased transportation costs will decrease more as revenues generated by affiliates decrease as a percentage of total transportation revenue. Our affiliates generated 56.7% of our transportation and fuel surcharge revenue in 2007 compared to 66.6% for the prior year. Total purchased transportation as a percentage of transportation revenue and fuel surcharge revenue decreased to 69.8% versus 74.4% for the prior year due to this shift in our revenue mix.

Compensation expense increased $12.6 million, or 17.2% primarily due to new or converted company terminals added over the prior year, and company-wide compensation increases. This increase was offset in part by a $1.4 million decrease in stock compensation expense due to stock units being fully recognized in 2006.

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Fuel, supplies and maintenance increased $28.0 million or 52.5% due primarily to fuel costs associated with the shift of revenue from affiliates to company owned terminals, increased lease costs as we fund the expansion of our tractor and trailer fleet through the use of operating leases, costs associated with the purchase of tires as we expand our fleet, increased maintenance as we increase the capacity of our equipment and increased costs to clean of our trailers.

Depreciation and amortization expense increased $1.2 million, or 7.3%, due primarily to increased depreciation for assets acquired in affiliate conversions and amortization of intangible assets resulting from increased acquisition activity in 2007.

Selling and administrative expenses increased $7.2 million, or 30.2%. This increase is primarily attributable to a $1.4 million increase in bad debt expense due to credit adjustments as a result of a reduction in days sales outstanding in 2006, a $1.6 million increase in QCI and QSI expenses due to affiliate conversions and new tank wash terminals and an increase in travel costs as we add more company operations in addition to increased driver recruitment costs and increased building rental and maintenance costs associated with corporate and terminal buildings.

Insurance claims expense increased $10.6 million, or 79.5%, due primarily to the settlement of three large claims in the fourth quarter of 2007. During 2006, we recorded a $1.7 million reduction in claims on insurance policies retained by our insurance subsidiary, and $0.7 million of insurance reimbursement.

Loss on disposal of property and equipment was $1.0 million in 2007 as compared to a gain of $5.2 million in 2006, primarily due to the disposal of terminal assets and the sale of tractors and trailers at a loss compared to the sale of several real properties that generated $4.5 million of gain with the remaining net gain generated from the sale of tractors and trailers in 2006. The impairment loss on property and equipment was $0.4 million and $0.3 million in 2007 and 2006, respectively.

Operating income decreased $24.1 million, or 49.9%, compared to 2006. The operating margin for 2007 was 3.3% compared to 6.8% for 2006 as a result of the above items.

Interest expense increased by $0.4 million, or 1.3%, in 2007 compared to 2006 primarily due to the increase in borrowings to acquire Boasso. Interest income decreased by $0.7 million due primarily to the realization in 2006 of interest income arising from the payment in stock of two subscription notes.

We wrote off debt issuance costs of $1.2 million due to the refinancing of our previous revolving credit facility and term loan with our new asset based loan facility in 2007 and recorded a charge of $0.8 million for bridge commitment fees related to the Boasso acquisition. We had no such costs in 2006.

Other expense in 2007 contained $1.6 million of costs related to an unconsummated acquisition and refinancing activities offset by $0.7 million in foreign currency conversions. Other expense in 2006 contained $1.0 million of expenses related to the filing of a shelf registration statement and related expenses.

The benefit from income taxes was $2.1 million in 2007 as compared to a benefit from income taxes of $38.2 million in 2006. The effective rate for the year ended December 31, 2007 was 21.5%, this rate is lower than our anticipated 39.0% effective rate in large part due to recording a $1.6 million valuation allowance against our deferred tax asset for foreign tax credits. The Company s effective rate would have been 38.4% if this valuation allowance had not been recorded. This change was primarily due to the release of approximately $45.8 million of our $46.7 million deferred tax valuation allowance in 2006. This release was due to improved operating results and the determination that it is more likely than not that expected future taxable income will be sufficient to utilize certain of our deferred tax assets.

Net loss was $7.6 million for 2007 versus net income of $56.2 million for 2006 for the reasons outlined above.

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YEAR ENDED DECEMBER 31, 2006 COMPARED TO YEAR ENDED DECEMBER 31, 2005

Total revenues for 2006 were $730.2 million, an increase of $52.1 million or 7.7%, compared to 2005 revenues. Transportation revenue increased by $30.7 million or 5.6% compared to 2005. The increase in transportation revenue is primarily attributable to rate increases and an increase in the number of miles driven offset in part by a reduction in the total number of loads from the prior year. The decreased load count was spread across most of our customer base.

Other service revenue decreased by $0.6 million or 0.9% in 2006 versus 2005. This decrease was primarily due to a $1.8 million decrease in rental revenues resulting from reduced trailer rental revenue generated from our affiliates, partially offset by a $0.8 million increase in revenues at our QSI subsidiary. Fuel surcharge revenue increased $22.0 million from 2005 as a result of higher average fuel prices and an increase in the number of miles driven during the year. Approximately 85% of the fuel surcharge revenue is reflected in Purchased transportation and was paid to our affiliates and company owner-operators during fiscal year 2006 while the remaining company costs offset by the fuel surcharge are reflected in Fuel, supplies and maintenance.

We managed a total of approximately 7,800 trailers and 3,800 tractors at the end of 2006 compared to 7500 trailers and 3,500 tractors at December 31, 2005. The increase in trailers is primarily due to our purchase or lease of additional trailers during fiscal year 2006. The increase in tractors is partially the result of acquiring affiliates and new businesses and expanding the number of owner-operators through our tractor lease program. We expect to either purchase or lease additional tractors and trailers in 2007.

Operating expenses totaled $681.9 million in 2006, an increase of $43.6 million or 6.8% from 2005. The increase in operating expenses was primarily attributable to a $22.4 million increase in purchased transportation, a $18.0 million increase in fuel, supplies and maintenance and a $10.6 million increase in compensation.

The increase over the prior year in purchased transportation is primarily due to a majority of the $22.0 million of additional fuel surcharges being passed through to our affiliates and owner-operators offset in part by a shift of our transportation business from affiliates to more company operations. We pay our affiliates approximately 85% of the transportation revenue while we pay company owner-operators approximately 62% of the transportation revenue. Since we pay our affiliates a greater percentage of revenues generated by them than is paid to company owner-operators, our purchased transportation costs will decrease more as revenues generated by affiliates decrease as a percentage of total transportation revenue. Our affiliates generated 66.6% of our transportation and fuel surcharge revenue in 2006 compared to 76.7% for the prior year. Total purchased transportation as a percentage of transportation revenue and fuel surcharge revenue decreased to 74.4% versus 77.1% for the prior year due to this shift in our revenue mix.

Compensation expense increased $10.6 million, or 17.0% primarily due to new or converted company terminals added over the prior year, company-wide compensation increases and an increase in stock-based compensation expense offset in part by decreases from the prior year for pension, severance and hiring costs for senior executives. The increase in stock-based compensation expense is due in part to the implementation of SFAS 123R on January 1, 2006.

Fuel, supplies and maintenance increased $18.0 million or 50.9% due primarily to fuel costs associated with the shift of revenue from affiliates to company owned terminals, increased lease costs as we fund the expansion of our trailer fleet through the use of operating leases, costs associated with the purchase of tires as we expand our fleet and an increase in the number of miles driven, increased maintenance as we increase the capacity of our equipment and increased cleaning of our trailers.

Depreciation and amortization expense decreased $0.9 million, or 5.3%, due primarily to the sale of tractors in the prior year and the use of more leased trailers versus purchasing trailers as well as a number of assets becoming fully depreciated throughout 2007 and 2006.

Selling and administrative expenses increased $3.6 million, or 17.7%. This increase is primarily attributable to a $2.2 million increase in environmental costs associated with the Bridgeport, New Jersey location and our William Dick, Pennsylvania location and EPA oversight charges assessed due to a recent court decision offset by cost reductions at various smaller sites, an increase in travel costs as we add more company operations in addition to increased driver recruitment costs and increased building rental and maintenance costs associated with corporate and terminal buildings. These increases were partially offset by a $1.8 million decrease in professional fees from the prior year for tax, accounting and legal issues that did not recur in 2006 and a $1.3 million decrease in bad debt expense arising from improved collection efforts.

Insurance claims expense decreased $5.9 million, or 30.6%, due primarily to an improvement in our loss experience in 2006 and a refinement in our projection from our claims model through the use of more specific industry data and the recognition of early settlement claims offset in part by $2.0 million of cleanup costs related to a chemical release at one of our tank wash facilities. During 2006, we received $0.7 million of insurance reimbursement funds. During 2005, we received $2.9 million of insurance reimbursement funds and reversed $0.6 million of fines and penalties related to our insurance subsidiary that was initially recorded in the fourth quarter of 2004.

Gain on disposal of property and equipment was $5.2 million in fiscal year 2006 as compared to a loss of $0.3 million in fiscal year 2005, primarily due to the sale of several real properties that generated $4.5 million of gain with the remaining net gain generated from the sale of tractors and trailers. The impairment loss on property and equipment was $0.3 million and $0.1 million in fiscal years 2007 and 2006, respectively. PPI class action settlement and related expenses decreased $1.0 million in 2006 as most related expenses were accrued in 2005.

Operating income increased $8.5 million or 21.2% compared to 2005. The operating margin for 2006 was 6.8% compared to 5.9% for 2005 as a result of the above items.

Interest expense increased by $4.0 million or 14.8% in 2006 compared to 2005 primarily due to the increase in interest rates over 2005. Interest income increased by $1.3 million due primarily to the realization of $0.7 million of interest income arising from the payment in stock of two stock subscription notes and interest earned on notes arising from the sale of tractors.

In the first quarter of 2005, we wrote off $1.1 million of debt issuance costs associated with the $70.0 million partial repayment of our term loan using proceeds from the issuance of new debt in January 2005.

Other income decreased by $1.1 million due primarily to a $1.0 million charge for expenses related to the filing of a shelf registration statement and expenses for potentially issuing new shares and reduced foreign currency transaction exchange gain in 2006 versus 2005.

The benefit from income taxes was $38.2 million in 2006 as compared to a provision for income taxes of $0.4 million in 2005. This change was primarily due to the release of approximately $45.8 million of our $46.7 million deferred tax valuation allowance. This release is due to improved operating results and the determination that it is more likely than not that expected future taxable income will be sufficient to utilize certain of our deferred tax assets.

Net income was $56.2 million for 2006 versus $11.9 million for 2005 for the reasons outlined above.

EXCHANGE RATES

We operate in Canada and Mexico as well as in the United States. Our results of operations are affected by the relative strength of currencies in the countries where we operate. Approximately 7.2%, 7.2% and 7.1% of our revenue in 2007, 2006 and 2005, respectively, was generated outside the United States.

In comparing the average exchange rates between 2007 and the year-ago period, the Canadian dollar appreciated against the United States dollar by approximately 5.6% while the Mexican peso depreciated against

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the United States dollar by approximately 0.2%. The change in exchange rates positively impacted revenue by approximately $2.8 million in 2007. The appreciation of the Canadian dollar since December 31, 2006 was the primary reason for the less than $0.3 million increase in cumulative currency translation loss in shareholders equity for 2007.

Gains and losses included in the consolidated statements of operations from foreign currency transactions included a $0.3 million gain in fiscal year 2007, a $0.1 million gain in fiscal year 2006, and a $0.4 million gain in fiscal year 2005. Risks associated with foreign currency fluctuations are discussed further in Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

LIQUIDITY AND CAPITAL RESOURCES

The following summarizes our cash flows for fiscal years 2007, 2006 and 2005 as reported in our Consolidated Statements of Cash Flows in the accompanying Consolidated Financial Statements:

	Year Ended December 31,		
(In Thousands)	**2007**	**2006 (As adjusted)**	**2005 (As adjusted)**
Net cash provided by operating activities	$ 14,052	$ 28,236	$ 9,039
Net cash used in investing activities	(63,399)	(10,591)	(16,063)
Net cash provided by (used in) financing activities	52,194	(12,474)	5,858
Effect of exchange rates	23	34	102
Net increase (decrease) in cash	2,870	5,205	(1,064)
Cash at beginning of period	6,841	1,636	2,700
Cash at end of period	$ 9,711	$ 6,841	$ 1,636

Historically, our primary source of liquidity has been cash flow from operations and borrowing availability under our credit agreement. Our primary cash needs consist of capital expenditures and debt service including our asset-based loan facility (ABL Facility), our 9% Senior Subordinated Notes due 2010 (9% Notes) and our Senior Floating Rate Notes due 2012 (the 2012 Notes). We incur capital expenditures for the purpose of purchasing tractors and trailers to meet our strategic needs during the year, and maintaining and improving our infrastructure. During 2006 and 2007, we reduced our capital expenditures required for our tractor and trailer acquisitions by entering into operating leases which will result in increased operating expenses in future periods. We plan to continue to enter into operating leases to reduce capital expenditures in 2008.

We have accrued $11.2 million for environmental claims and $31.9 million for loss and damage claims and the timing of the cash payment for such claims fluctuates from quarter to quarter.

We generated $14.1 million, $28.2 million and $9.0 million from operating activities in 2007, 2006 and 2005, respectively. The decrease in net cash provided by operating activities in 2007 as compared to 2006 is primarily due to our net loss for the year. The increase in net cash provided by operating activities in 2006 as compared to 2005 is primarily due to improved profitability, improvement of our accounts receivable collection efforts offset by funds used to purchase tractors for resale to drivers and to fund the tractor sales as notes receivable to us.

Net cash used in investing activities in 2007, 2006 and 2005 was $63.4 million, $10.6 million and $16.1 million, respectively. Capital expenditures totaled $10.6 million, $14.9 million and $15.8 million in 2007, 2006 and 2005, respectively. We used net cash of $52.4 million for the acquisition of Boasso and $6.8 million of cash to purchase two businesses and the business assets of six affiliates in 2007, issued note payables for $2.4 million and assumed $2.5 million in liabilities as part of the total consideration of these acquisitions. In 2006, we used $6.5 million of cash to purchase two businesses and the business assets of three affiliates, issued a note payable

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for $1.6 million and assumed $4.4 million in liabilities as part of the consideration of these acquisition. We entered into operating leases for equipment in 2006 that would otherwise have required approximately $20.0 million to purchase various tractors and trailers. Our proceeds from the sale of property and equipment for 2006 increased by $6.5 million primarily due to the sale of various real estate properties. In 2005, we purchased the business assets of three affiliates for $4.5 million. We expect to continue to expand the number of tractors and trailers in 2008 either by purchase or through the use of operating or capital leases.

Net cash (used in) provided by financing activities was $52.2 million, $(12.5) million and $5.9 million in 2007, 2006 and 2005, respectively. We utilized our ABL Facility to finance the acquisition of Boasso in 2007. In 2006, we generated enough cash from operations and the sale of property to fully repay our revolver by year-end. In 2005, we utilized our revolver to finance the acquisition of business assets and to fund some short-term working capital needs.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements as defined under Item 303(a) (4) of Regulation S-K.

Contractual Obligations

The following is a schedule of our long-term contractual commitments, including the current portion of our long-term indebtedness at December 31, 2007 over the periods we expect them to be paid (dollars in thousands):

	TOTAL	Year 2008	Years 2009 & 2010	Years 2011 & 2012	The Five Years after 2012
Operating leases (1)	$ 104,239	$ 26,181	$ 41,297	$ 22,786	$ 13,975
Total indebtedness (2)	348,435	413	128,421	135,471	84,130
Capital leases	5,283	1,451	3,146	686	
Interest on indebtedness (3)	124,293	31,564	61,304	28,337	3,088
Total	$ 582,250	$ 59,609	$ 234,168	$ 187,280	$ 101,193

(1) These obligations represent the minimum rental commitments under all non-cancelable operating leases. See Note 17 of the Note to the Consolidated Financial Statements. We entered into a new lease, commencing in May 2007, for our corporate headquarters that requires us to spend $15.8 million over the term of the lease. We expect that some of our operating lease obligations for tractors will be partially offset by rental revenue from sub-leasing the tractors to owner-operators or affiliates.

(2) Excludes a discount of $4.4 million.

(3) Amounts presented for interest payments assume that all long-term debt obligations outstanding as of December 31, 2007 will remain outstanding until maturity and interest rates on variable-rate debt in effect as of December 31, 2007 will remain in effect until maturity. As discussed below, the maturity date of the ABL Facility may be accelerated if we default on our obligations under the ABL Facility. The maturity date of the ABL Facility is also advanced to a date 91 days prior to the maturity date of the 2012 Notes or the 9% Notes (and replacement indebtedness) if the aggregate principal amount of the notes maturing in the 91-day period exceeds $50.0 million.

Other Liabilities and Obligations

We have $11.2 million of environmental liabilities, $7.8 million of pension plan obligations and $31.0 million of insurance claim obligations. We expect to incur additional environmental costs in the future for environmental studies and remediation efforts that we will be required to undertake related to legacy Chemical Leaman sites. We also have $58.4 million in outstanding letters of credit. We are required to provide letters of credit to our insurance administrator to cover the payment of claims. The outstanding letters of credit as of December 31, 2007 for our insurance administrator was $47.1 million. The remaining $11.3 million of outstanding letters of credit relate to various leasing obligations and to satisfy certain EPA requirements. If we fail to meet certain terms of our agreement, the insurance administrator may draw down the entire letter of credit. We have $4.2 million of a long-term liability that was assumed upon the purchase of a business in 2006 that we expect to pay out over the next ten years. We have $3.2 million of total gross unrecognized tax benefits.

Long-term Debt

Our principal debt sources at December 31, 2007 comprise $125 million aggregate principal amount of 9% Notes, $135 million aggregate principal amount of the 2012 Notes and a $225 million ABL Facility.

The ABL Facility

The ABL Facility which was effective December 18, 2007, consists of a current asset-based revolving facility in an initial amount of $195.0 million (the current asset tranche) and a fixed asset-based revolving facility in an initial amount of $30.0 million (the fixed asset tranche), with the total commitments under the fixed asset tranche to be reduced, and the total commitments under the current asset tranche correspondingly increased by $5.0 million on each at December 18, 2009 and 2010. Borrowings of revolving loans under the ABL Facility are allocated pro rata to the current asset tranche and the fixed asset tranche based on the then-current asset borrowing base and the then-current fixed asset borrowing base. The ABL Facility matures June 18, 2013. The maturity date of the ABL Facility may be accelerated if we default on our obligations under the ABL Facility. The maturity date of the ABL Facility is also advanced to a date 91 days prior to the maturity date of the 2012 Notes or the 9% Notes (and replacement indebtedness) if the aggregate principal amount of the notes maturing in the 91-day period exceeds $50.0 million.

The ABL Facility includes borrowing capacity of up to $150.0 million for letters of credit, which are allocated pro rata between the two tranches based on the then-current borrowing base for each tranche (or, if the credit extensions under the fixed asset tranche are repaid and the commitments there under are terminated prior to the termination of the ABL Facility, to the current asset tranche), and up to $10.0 million for swingline borrowings on same-day notice, which are allocated under the current asset tranche. The proceeds of the ABL Facility were used, together with the proceeds from an additional private offering of $50 million of Senior Floating Rate Notes (described below under Senior Floating Rate Notes), to finance a portion of the Boasso acquisition. The ABL facility contains a fixed charge coverage ratio of 1.0 to 1.0 which only needs to be met if borrowing availability is less than $20.0 million. At December 31, 2007, we had $52.1 million of borrowing availability under the ABL Facility.

Borrowings under the ABL Facility bear interest at a rate equal to an applicable margin plus, at our option, either a base rate or LIBOR. The initial applicable margin for borrowings under the current asset tranche are 1.00% with respect to base rate borrowings and 2.00% with respect to LIBOR borrowings. The initial applicable margin for borrowings under the fixed asset tranche are 1.25% with respect to base rate borrowings and 2.25% with respect to LIBOR borrowings. The applicable margin for such borrowings will be reduced or increased based on aggregate borrowing base availability under the ABL Facility over the life of the ABL Facility. The base rate for the ABL Facility is the higher of the prime rate and the federal funds overnight rate plus 0.50%. We are also required to pay a fee for utilized commitments under the ABL Facility at a rate equal to 0.25% per annum. The ABL Facility is required to be prepaid only to the extent that aggregate amount of outstanding borrowings, unreimbursed letter of credit drawings and undrawn letters of credit under the relevant tranche exceeds the lesser of the applicable commitments and the applicable borrowing base in effect at such time for such tranche. The borrowing base for the current asset tranche consists of eligible accounts receivable, eligible inventory and eligible truck and trailer fleet, and the borrowing base for the fixed asset tranche consists of eligible real property and certain eligible equipment. We may voluntarily repay outstanding loans under the ABL Facility at any time without premium or penalty, other than customary breakage costs with respect to LIBOR loans. The interest rate on the ABL Facility at December 31, 2007 was 7.0% . The weighted average interest rate during fiscal year 2007 was 7.0%.

All obligations under the ABL Facility are guaranteed by QDI and each of our wholly-owned domestic restricted subsidiaries (other than our immaterial subsidiaries). Obligations under the current asset tranche, and the guarantees of those obligations (as well as cash management obligations and any interest hedging or other swap agreements), are secured by a first priority lien on certain assets of QD LLC and the guarantors, including eligible accounts, eligible inventory and eligible truck and trailer fleet (current asset tranche priority collateral) and a second priority lien on all other assets of QD LLC and the guarantors, including eligible real property and certain eligible equipment (fixed asset tranche priority collateral). Obligations under the fixed asset tranche, and the guarantees of those obligations, are secured by a first-priority lien on fixed asset tranche priority collateral and a second priority lien on current asset tranche priority collateral.

We incurred $6.4 million in debt issuance costs relating to the ABL Facility. We are amortizing these costs over the term of the ABL Facility. The balance of the debt issuance costs as of December 31, 2007 was approximately $6.4 million.

Senior Floating Rate Notes

On January 28, 2005, we consummated the private offering of $85 million of the 2012 Notes by QD LLC and QD Capital and guaranteed by QDI and domestic subsidiaries at 98% of the face value of the notes. On December 18, 2007, we consummated a private offering of $50 million of the 2012 Notes by QD LLC and QD Capital and guaranteed by QDI and domestic subsidiaries at 93% of the face value of the notes (combined the 2012 Notes). The 2012 Notes, due January 15, 2012, pay interest quarterly on January 15, April 15, July 15, and October 15. Interest accrues at a floating rate per annum, reset quarterly, equal to LIBOR plus 4.5%. The net proceeds of the $85 million offering were used to repay approximately $70 million of a previous term loan and to make a distribution to QDI, which in turn used such proceeds to redeem all $7.5 million principal amount of outstanding Series B Notes. The balance was used for general corporate purposes, including the repayment of $5.8 million of indebtedness under the revolving credit portion of our previous credit facility. The previous credit facility was amended to incorporate this reduction in the term-loan portion of the facility and to modify the covenants. The net proceeds of the $50.0 million offering were used to repay a portion of our previous credit facility. The interest rate on the $85.0 million of the 2012 Notes at December 31, 2007 and 2006 was 9.7% and 9.9%, respectively. The weighted average interest rate during fiscal year 2007 and 2006 was 9.9% and 9.4%, respectively. The interest rate on the $50 million of 2012 Notes at December 31, 2007 was 9.7%. The weighted average interest rate during fiscal year 2007 was 9.7%.

We incurred $2.4 million in debt issuance costs relating to the $85 million of the 2012 Notes and $1.9 million related to the $50 million of the 2012 Notes. We are amortizing these costs over the term of the notes. The balance of the debt issuance costs as of December 31, 2007 was $3.3 million.

We may redeem the 2012 Notes, in whole or in part from time to time, upon not less than 30 nor more than 60 days notice at the following redemption prices, expressed as percentages of the principal amount thereof, if redeemed during the twelve-month period commencing on January 15 of the year set forth below, plus, in each case, accrued and unpaid interest thereon, if any, to the date of redemption:

Year	Percentage
2008	101.00
2009 and thereafter	100.00

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Previous Term Loan

Prior to entering into the ABL Facility, our term loan carried interest at our option at (a) 2.00% in excess of the defined Base Rate or (b) 3.00% in excess of the Eurodollar rate for Eurodollar Loans, subject in each case, to adjustment based upon the achievement of certain financial ratios and matured on November 12, 2009. The principal payments were payable quarterly on March 15, June 15, September 15 and December 15.The interest rate on the term loan at December 31, 2006 was 8.4%. The weighted average interest rate during fiscal year 2006 was 8.0%. The interest rate on the term loan upon refinancing with the new ABL Facility on December 18, 2007 was 9.7% and the weighted average interest rate during 2007 was 8.6%.

We incurred $3.4 million in debt-issuance costs relating to the term loan and wrote-off $1.1 million of the debt-issuance costs upon the $70 million partial repayment of the term loan in January 2005. We amortized the $2.3 million remaining debt-issuance costs over the term of the term loan to interest expense using the effective-interest method until we wrote off the balance of $0.7 million upon refinancing the term loan with the new ABL Facility.

Previous Revolving Credit Facility

Prior to entering into the ABL Facility, our revolving credit facility comprised a $75.0 million revolver that was available until November 12, 2008 and a $20 million pre-funded letter of credit facility that was available until November 12, 2009. The revolver was used for working capital and general corporate purposes, including permitted acquisitions and additional letters of credit. At December 31, 2006, we had $39.7 million available under the revolver and $55.3 million in outstanding letters of credit.

Interest on the revolver was, at our option, (a) 2.50% in excess of the Base Rate provided in the credit agreement or (b) 3.50% in excess of the Eurodollar rate for Eurodollar Loans, in each case subject to adjustments based upon the achievement of certain financial ratios. The interest rate on the revolver at December 31, 2006 was 10.8%. The weighted average interest rate on the revolver during fiscal year 2006 was 9.8% . The interest rate on the revolver upon refinancing with the new ABL Facility on December 18, 2007 was 9.6% and the weighted average interest rate during 2007 was 10.6%.

The credit facility provided for payment by us in respect of outstanding letters of credit of an annual fee equal to the spread over the Eurodollar rate for Eurodollar Loans under the revolver from time to time in effect on the aggregate outstanding stated amounts of such letters of credit and a fronting fee equal to $^{1}/4$ of 1.0% on the aggregate outstanding stated amounts of such letters of credit. We paid a commitment fee equal to $^{1}/2$ of 1.0% per annum on the undrawn portion of the available commitment under the revolver, subject to decreases based on the achievement of certain financial ratios.

Voluntary prepayments and commitment reductions were permitted in whole or in part, subject to minimum prepayment or reduction requirements, without premium or penalty, provided that voluntary prepayments of Eurodollar Loans on a date other than the last day of the relevant interest period will be subject to payment of customary breakage costs, if any.

We incurred $1.5 million in debt-issuance costs relating to the revolver and we amortized these costs over the term of the revolver. Upon the refinancing of the revolver with the new ABL Facility, we wrote off a balance of the debt issuance costs of $0.4 million.

9% Senior Subordinated Notes

The 9% Notes are unsecured obligations, due 2010, guaranteed on a senior subordinated basis by us and all of our direct and indirect domestic subsidiaries. The guarantees are full, unconditional, joint and several obligations of the guarantors.

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We incurred $5.5 million in debt issuance costs relating to the 9% Notes. We are amortizing these costs over the term of the 9% Notes. The balance of the debt issuance costs as of December 31, 2007 was $2.2 million.

We may redeem the 9% Notes, in whole or in part from time to time, upon not less than 30 nor more than 60 days notice at the following redemption prices, expressed as percentages of the principal amount thereof, if redeemed during the twelve-month period commencing on November 15 of the year set forth below, plus, in each case, accrued and unpaid interest thereon, if any, to the date of redemption:

Year	Percentage
2008	102.25
2009 and thereafter	100.00

Boasso Note

Included in the aggregate purchase price of the Boasso acquisition is a $2.5 million 7% promissory note with a maturity on December 18, 2009 for the benefit of a former Boasso shareholder. The shareholder has the right to demand payment on December 18, 2009. The Boasso Note is convertible into shares of our common stock following the first anniversary of the acquisition at the election of the holder at a price of $4.47 per share (the closing price of the shares reported on NASDAQ on the day before the acquisition). If the conversion option is exercised, we have the right, instead of issuing shares to pay the holder a cash amount equal to the number of shares of common stock into which the Boasso Note is then convertible multiplied by the 10-day trailing average closing price plus any accrued and unpaid interest.

Collateral, Guarantees and Covenants

The ABL Facility contains a number of covenants that, among other things, restrict, subject to certain exceptions, our ability, and the ability of our subsidiaries, to sell assets; incur additional indebtedness; prepay other indebtedness (including the 2012 Notes and the 9% Notes); pay dividends and distributions or repurchase their capital stock; create liens on assets; make investments; make certain acquisitions; engage in mergers or consolidations; engage in certain transactions with affiliates; amend certain charter documents and material agreements governing subordinated indebtedness, including the 2012 Notes and the 9% Notes; change the business conducted by it and its subsidiaries; and enter into agreements that restrict dividends from subsidiaries. The ABL Facility also contains certain customary affirmative covenants and events of default.

The term loan and revolver were guaranteed by all of our existing and future direct and indirect domestic subsidiaries (collectively, the subsidiary guarantors). Our obligations under the term loan and revolver and our subsidiary guarantor obligations were collateralized by a first priority perfected lien on substantially all of our properties and assets and the subsidiary guarantors, including a pledge of all capital stock and notes owned by us and the subsidiary guarantors, subject to certain exceptions. In addition, in certain cases, no more than 65.0% of the stock of our foreign subsidiaries is required to be pledged. Such assets pledged also collateralize certain interest rate protection and other hedging agreements permitted by the credit facility that may be entered into from time to time by us.

The previous credit agreement contained restrictions on debt incurrence, investments, transactions with affiliates, creation of liens, asset dispositions, redeemable common stock, and preferred stock issuance, capital expenditures, and the payment of dividends. At the time of refinancing our previous credit facility with the new ABL Facility, we were in compliance with all these debt covenants. The previous credit agreement included one financial covenant, the ratio of Senior Secured Debt (as defined therein) to Consolidated EBITDA (as defined therein), which we were in compliance at the time of refinancing.

We are in compliance of all covenants at December 31, 2007.

Debt Retirement

The following is a schedule of our indebtedness at December 31, 2007 over the periods we are required to pay such indebtedness:

(in 000 s)	2008	2009	2010	2011	2012 and after	Total
Boasso Note (1)	$	$ 2,500	$	$	$	$ 2,500
Capital lease obligations	1,451	1,593	1,553	575	111	5,283
ABL Facility (2)					84,130	84,130
9% Senior Subordinated Notes, due 2010			125,000			125,000
Senior Floating Rate Notes, due 2012					135,000	135,000
Other Notes	413	444	477	402	69	1,805
Total	$ 1,864	$ 4,537	$ 127,030	$ 977	$ 219,310	$ 353,718

(1) The holder of the Boasso Note has the right to require that we repay the Boasso Note in full on the first anniversary of the Boasso acquisition.

(2) The maturity date of the ABL Facility may be accelerated if we default on our obligations under the ABL Facility. The maturity date of the ABL Facility is also advanced to a date 91 days prior to the maturity date of the 2012 Notes or the 9% Notes (and replacement indebtedness) if the aggregate principal amount of the notes maturing in the 91-day period exceeds $50.0 million.

The above table does not include the remaining unamortized original issue discount of $4.4 million relating to the 2012 Notes.

The following table is our debt issuance costs at December 31,2007:

	Issuance Costs	Accumulated Amortization	Balance
ABL Facility	$ 6,395	$ 39	$ 6,356
9% Senior Subordinated Notes, due 2010	5,496	3,271	2,225
Senior Floating Rate Notes, due 2012	4,403	1,060	3,343
Total	$ 16,294	$ 4,370	$ 11,924

QD LLC, has the ability to incur additional debt, subject to limitations imposed by the indentures governing the 9% Notes and the 2012 Notes. Under the indentures governing the 9% Notes and the 2012 Notes, in addition to specified permitted indebtedness, QD LLC will be able to incur additional indebtedness so long as, on a pro forma basis, QD LLC s consolidated fixed charge coverage ratio (the ratio of Consolidated EBITDA (as defined in the respective indentures for the QD LLC Notes) to consolidated fixed charges) is 2.25 to 1.0 or less. As of December 31, 2007, we were in compliance with this covenant.

Liquidity

We believe that, based on current operations and anticipated growth, our cash flow from operations, together with available sources of liquidity, including borrowings under the revolver, will be sufficient to fund anticipated capital expenditures, make required payments of principal and interest on our debt, including obligations under our credit agreement, and satisfy other long-term contractual commitments for the next twelve months.

However, for periods extending beyond twelve months, if our operating cash flow and borrowings under the revolving portions of the ABL Facility are not sufficient to satisfy our capital expenditures, debt service and other long-term contractual commitments, we would be required to seek alternative financing. These alternatives would likely include another restructuring or refinancing of our long-term debt, the sale of a portion or all of our assets or operations, or the sale of additional debt or equity securities. If these alternatives were not available in a

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timely manner or on satisfactory terms, or were not permitted under our existing agreements, we might default on some or all of our obligations. If we default on our obligations and the debt under the indentures for the 9% Notes and 2012 Notes were to be accelerated, our assets might not be sufficient to repay in full all of our indebtedness, and we might be forced into bankruptcy.

Other Issues

We have historically sought to acquire smaller local operators as part of our program of strategic growth. We continue to evaluate potential accretive acquisitions in order to capitalize on the consolidation occurring in the industry and expect to fund such acquisitions from available sources of liquidity, including borrowings under the revolving portion of our ABL Facility.

While uncertainties relating to environmental, labor and other regulatory matters exist within the trucking industry, management is not aware of any trends or events likely to have a material adverse effect on liquidity or the accompanying financial statements. Our credit rating is affected by many factors, including our financial results, operating cash flows and total indebtedness.

As a holding company with no significant assets other than ownership of 100% of QD LLC s membership units, QDI also depends upon QD LLC s cash flows to service our debt. QD LLC s ability to make distributions to QDI is restricted by the covenants contained in the revolving portion of our ABL Facility and the indentures governing the 9% Notes and 2012 Notes. However, Apollo as our controlling shareholder may have an interest in pursuing reorganizations, restructurings or other transactions involving us that, in their judgment, could enhance their equity investment even though those transactions might involve increasing QD LLC s leverage or impairing QD LLC s creditworthiness in order to decrease QDI s leverage. While the restrictions in the revolving portion of our ABL Facility cover a wide variety of arrangements that have traditionally been used to effect highly leveraged transactions, the ABL Facility and the indentures may not afford the holders of our debt protection in all circumstances from the adverse aspects of a highly leveraged transaction, reorganization, restructuring, merger or similar transaction.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to market risks from (i) interest rates due to our variable interest rate indebtedness, (ii) foreign currency fluctuations due to our international operations and (iii) increased commodity prices due to the diesel consumption necessary for our operations. During the last three years, we have not held derivative instruments or engaged in other hedging transactions to reduce our exposure to such risks.

Interest Rate Risk

We are exposed to the impact of interest rate changes primarily through our variable-rate borrowings under the ABL Facility and the 2012 Notes. With regard to the ABL Facility at QD LLC s option, the initial applicable margin for borrowings under the current asset tranche will be 1.00% with respect to base rate borrowings and 2.00% with respect to LIBOR borrowings. The initial applicable margin for borrowings under the fixed asset tranche will be 1.25% with respect to base rate borrowings and 2.25% with respect to LIBOR borrowings. The applicable margin for such borrowings will be reduced or increased based on aggregate borrowing base availability under the ABL Facility over the life of the ABL Facility. The base rate under the ABL Facility is equal to the higher of the prime rate and the federal funds overnight rate plus 0.50%. The base rate for our 2012 Notes is LIBOR plus 4.50%.

	Balance at December 31, 2007 ($ in 000s)	Interest Rate at December 31, 2007	Effect of 1% Increase ($ in 000s)
ABL Facility	$ 84,130	7.00%	$ 841
Senior Floating Rate Notes - $50M	50,000	9.72%	500
Senior Floating Rate Notes - $85M	85,000	9.84%	850
Total	$ 219,130		$ 2,191

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At December 31, 2007, a 1% point increase in the current per annum interest rate for each would result in $2.2 million of additional interest expense during the next year. The foregoing calculation assumes an instantaneous one percentage point increase in the rates of all of our indebtedness and that the principal amount of each is the amount outstanding as of December 31, 2007. The calculation therefore does not account for the differences in the market rates upon which the interest rates of our indebtedness are based, our various options to elect the lower of two different interest rates under our borrowings or other possible actions, such as prepayment, that we might take in response to any rate increase.

Foreign Currency Exchange Rate Risk

Operating in international markets involves exposure to the possibility of volatile movements in foreign exchange rates. The currencies in each of the countries in which we operate affect:

- the results of our international operations reported in United States dollars; and
- the value of the net assets of our international operations reported in United States dollars.

These exposures may impact future earnings or cash flows. Revenue from foreign locations (Canada and Mexico) represented approximately 7.2% of our consolidated revenue in 2007 and 7.2% of our consolidated revenue in 2006. The economic impact of foreign exchange rate movements is complex because such changes are often linked to variability in real growth, inflation, interest rates, governmental actions and other factors. These changes, if material, could cause us to adjust our financing and operating strategies. Therefore, to isolate the effect of changes in currency does not accurately portray the effect of these other important economic factors. As foreign exchange rates change, translation of the income statements of our international subsidiaries into U.S. dollars affects year-over-year comparability of operating results. While we may hedge specific transaction risks, we generally do not hedge translation risks because we believe there is no long-term economic benefit in doing so.

Assets and liabilities for our Canadian operations are matched in the local currency, which reduces the need for dollar conversion. Our Mexican operations use the United States dollar as their functional currency. Any foreign currency impact on translating assets and liabilities into dollars is included as a component of shareholders equity. Our revenue results for fiscal year 2007 were positively impacted by a $2.8 million foreign currency movement, primarily due to the strengthening of the Canadian dollar against the United States dollar.

Changes in foreign exchange rates that had the largest impact on translating our international operating profits for 2007 related to the Canadian dollar versus the U.S. dollar. We estimate that a 1% adverse change in the Canadian dollar foreign exchange rate would have decreased our revenues by approximately $0.5 million in 2007, assuming no changes other than the exchange rate itself. Our inter-company loans are subject to fluctuations in exchange rates primarily between the United States dollar and the Canadian dollar. Based on the outstanding balance of our inter-company loans at December 31, 2007, a change of 1% in the exchange rate for the Canadian dollar would cause a change in our foreign exchange result of less than $0.1 million.

Commodity Price Risk

The price and availability of diesel fuel are subject to fluctuations due to changes in the level of global oil production, seasonality, weather, global politics and other market factors. In 2007, diesel fuel prices rose to near record levels. Historically, we have been able to recover a majority of fuel price increases from our customers in the form of fuel surcharges. The price and availability of diesel fuel can be unpredictable as well as the extent to which fuel surcharges could be collected to offset such increases. In 2007 and 2006, a majority of fuel price fluctuations were covered through fuel surcharges.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Financial statements and exhibits filed under this item are listed in the index appearing in Item 15 of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Attached as exhibits to this Form 10-K are certifications of our Chief Executive Officer and Chief Financial Officer, which are required in accordance with Rule 13a-14 of the Securities Exchange Act. This Controls and Procedures section includes information concerning the controls and controls evaluation referred to in the certifications.

Evaluation of Disclosure Controls and Procedures

As required by Exchange Act Rules 13a-15(b) and 15d-15(b), management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on their evaluation, management concluded our disclosure controls and procedures (as defined in Securities Exchange Act Rules 13a-15(e) and 15d-15(e)) were effective as of December 31, 2007 to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and were effective as of December 31, 2007 to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

Management s Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(e) and 15d-15(e). Our internal control over financial reporting is a process designed under the supervision of the Chief Executive Officer and Chief Financial Officer and effected by the Board of Directors and management, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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Management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2007, using the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment and those criteria, management has determined that our internal control over financial reporting was effective as of December 31, 2007.

Management s conclusion regarding the effectiveness of internal control over financial reporting as of December 31, 2007 does not include any internal control over financial reporting at Boasso, Management has elected to exclude Boasso from its assessment of internal control over financial reporting because we were unable to completely assess Boasso s internal control over financial reporting in the period between the Boasso acquisition on December 18, 2007 and management s assessment of internal control over financial reporting as of December 31, 2007. Boasso is a wholly-owned subsidiary whose total assets represent 15.7% of our total assets as of December 31, 2007 and whose total revenues, which are only included from date of acquisition, represent 0.3% of our total revenue for the year ended December 31, 2007.

PricewaterhouseCoopers LLP, our independent registered public accounting firm, has issued an attestation report on our internal control over financial reporting as stated in their report which is included herein.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not applicable.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information with respect to the directors, the Audit Committee of the Board of Directors, the Nomination Committee of the Board of Directors (known as the Corporate Governance Committee), and the Audit Committee financial expert, will be contained in our 2008 Proxy Statement. The 2008 Proxy Statement is expected to be filed on or about April 15, 2008. Such information is incorporated herein by reference.

Information with respect to the executive officers who are not directors of our company is located in Part I, Item 4 of this report.

Code of Ethics

We have adopted a Code of Conduct , which is applicable to all of our directors and employees, including our principal executive officer, our principal financial officer and our controller. A copy of the Code of Conduct can be found on our website at *www.qualitydistribution.com*. Any possible future amendments to or waivers from the Code of Conduct will be posted on our website.

Section 16(a) Beneficial Ownership Reporting Compliance

Information regarding compliance with Section 16(a) of the Exchange Act is set forth under the heading Section 16(a) Beneficial Ownership Reporting Compliance will be in our 2008 Proxy Statement and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

For information regarding our Executive Compensation, Compensation Committee Interlocks and Insider Participation, and our Compensation Committee Report, we direct you to the section entitled Compensation Discussion and Analysis, Executive Compensation, Compensation Committee Interlocks and Insider Participation, and Report of the Executive Compensation Committee that will be in the 2008 Proxy Statement. We are incorporating the information contained in that section of our Proxy Statement here by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

Information regarding the security ownership of certain beneficial owners and management and related shareholder matters will be set forth under the heading Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters in our 2008 Proxy Statement and is incorporated herein by reference.

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EQUITY COMPENSATION PLAN INFORMATION

We maintain three equity-based compensation plans the 1998 Stock Option Plan, the 2003 Stock Option Plan and the 2003 Restricted Stock Incentive Plan. There was also an agreement to issue stock units which applies solely to Mr. Detter, our former Chief Executive Officer. A description of all our equity based compensation plans can be found in footnote 16 of the Notes to Consolidated Financial Statements. The 2003 Stock Option Plan and the 2003 Restricted Stock Incentive Plan have each been approved by our shareholders. The following table sets forth the number of shares of our common stock subject to outstanding options and rights under these plans, the weighted-average exercise price of outstanding options, and the number of shares remaining available for future award grants under these plans as of December 31, 2007 (in thousands, except exercise price):

Equity Compensation Plan Information

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	2,727(1)	$ 11.27	1,565(3)
Equity compensation plans not approved by security holders	367(2)	10.41	314(4)
Total	3,094	11.17	1,879

(1) Consists of the 2003 Stock Option Plan which was approved by shareholders prior to our initial public offering and amended by our shareholders in 2005.
(2) Consists of the 1998 Stock Option Plan and the currently determinable number of shares under Stock Unit Grant Agreement.
(3) Consists of approximately 1,069,000 options issuable under the 2003 Stock Option Plan and approximately 496,000 shares of common stock issuable under the 2003 Restricted Incentive Stock Plan. The number of shares available for future issuance under the 2003 Stock Option Plan automatically increases every year by 2.5% of the outstanding shares as of December 31 of the prior year.
(4) Consists solely of shares issuable under the 1998 Stock Option Plan.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item will be incorporated by reference in our 2008 Proxy Statement under the heading Certain Relationships and Related Transactions.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information appearing in our 2008 Proxy Statement under the headings Report of the Audit Committee of the Board of Directors, Ratification of the Independent Registered Certified Public Accounting Firm and Fees Paid to the Independent Registered Certified Public Accounting Firm in 2007 is incorporated by reference.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The documents filed as part of this report are as follows:

1. The consolidated financial statements and accompanying report of independent certified public accountants are listed in the Index to Financial Statements and are filed as part of this report.

All consolidated financial statement schedules are omitted because they are inapplicable, not required or the information is included elsewhere in the consolidated financial statements or the notes thereto.

2. Exhibits required by Item 601 of Regulation S-K are submitted as a separate section herein immediately following the Exhibit Index .

(b) Other Exhibits

No exhibits in addition to those previously filed or listed in item 15(a) (2) and filed herein.

(c) Not Applicable

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

QUALITY DISTRIBUTION, INC.

March 14, 2008

/s/ GARY R. ENZOR
GARY R. ENZOR
PRESIDENT AND CHIEF EXECUTIVE OFFICER
(DULY AUTHORIZED OFFICER)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

DATE	SIGNATURE	TITLE
March 14, 2008	/s/ Gary R. Enzor Gary R. Enzor	President and Chief Executive Officer (Principal Executive Officer)
March 14, 2008	/s/ Timothy B. Page Timothy B. Page	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
March 14, 2008	* Gerald L. Detter	Director, Chairman of the Board
March 14, 2008	* Marc E. Becker	Director
March 14, 2008	* Robert H. Falk	Director
March 14, 2008	* Robert E. Gadomski	Director
March 14, 2008	* Richard B. Marchese	Director
March 14, 2008	* Thomas R. Miklich	Director
March 14, 2008	* Donald C. Orris	Director
March 14, 2008	* Eric L. Press	Director
March 14, 2008	*	Director

	M. Ali Rashid	
March 14, 2008	*	
	Alan H. Schumacher	Director
March 14, 2008	*	
	John J. Suydam	Director
March 14, 2008	*	
	Thomas M. White	Director

*By: /s/ Gary R. Enzor
Gary R. Enzor
Attorney-in-fact

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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R EPORT OF INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTING FIRM

To Board of Directors and shareholders of

Quality Distribution, Inc.

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Quality Distribution, Inc. and its subsidiaries at December 31, 2007 and December 31, 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these consolidated financial statements and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 3 to the consolidated financial statements, the Company changed its accounting policy surrounding tire costs from capitalizing and depreciating the costs of original and replacement tires over their estimated useful lives to capitalizing the costs of original tires as part of the tractor or trailer and expensing all replacement tires as incurred.

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for share-based compensation as of January 1, 2006 and the manner in which it accounts for uncertain income tax positions as of January 1, 2007.

As described in Management s Report on Internal Control Over Financial Reporting, management has excluded Boasso America Corporation from its assessment of internal control over financial reporting as of December 31, 2007, because it was acquired by the Company in a purchase business combination during 2007. We have also excluded Boasso America Corporation from our audit of internal control over financial reporting. Boasso America Corporation is a wholly-owned subsidiary whose total assets and total revenues represent approximately 15.7% and 0.3%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2007.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

Tampa, Florida

March 14, 2008

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Q UALITY DISTRIBUTION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended December 31, 2007, 2006 and 2005

(In 000 s) Except Per Share Data

	Years ended December 31, 2007	2006 (Adjusted Note 3)	2005 (Adjusted Note 3)
OPERATING REVENUES:			
Transportation	$ 580,676	$ 577,239	$ 546,527
Other service revenue	76,221	66,644	67,247
Fuel surcharge	94,661	86,276	64,302
Total operating revenues	751,558	730,159	678,076
OPERATING EXPENSES:			
Purchased transportation	471,531	493,686	471,238
Compensation	85,820	73,207	62,558
Fuel, supplies and maintenance	81,316	53,324	35,339
Depreciation and amortization	17,544	16,353	17,278
Selling and administrative	31,291	24,042	20,433
Insurance claims	23,883	13,307	19,183
Taxes and licenses	3,980	3,812	2,894
Communication and utilities	11,381	9,043	7,932
(Gain) loss on disposal of property and equipment	601	(5,163)	288
Impairment on property and equipment	358	270	75
PPI class action settlement and related expenses			1,039
Total operating expenses	727,705	681,881	638,257
Operating income	23,853	48,278	39,819
Interest expense	(31,342)	(30,955)	(26,957)
Interest income	818	1,567	245
Write-off of debt issuance costs	(2,031)		(1,110)
Other (expense) income	(940)	(888)	222
(Loss) income before income taxes	(9,642)	18,002	12,219
(Benefit from) provision for income taxes	(2,079)	(38,168)	352
Net (loss) income	$ (7,563)	$ 56,170	$ 11,867
PER SHARE DATA:			
Net (loss) income per common share			
Basic	$ (0.39)	$ 2.97	$ 0.63
Diluted	$ (0.39)	$ 2.87	$ 0.61
Weighted-average number of shares			

Basic	19,336	18,920	18,934
Diluted	19,336	19,571	19,301

The accompanying notes are an integral part of these consolidated financial statements.

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Q UALITY DISTRIBUTION, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2007 and 2006

(In 000 s)

	December 31, 2007	December 31, 2006 (Adjusted Note 3)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 9,711	$ 6,841
Accounts receivable, net	99,081	85,482
Prepaid expenses	8,150	6,101
Deferred tax asset, net	20,483	18,320
Other	6,258	9,214
Total current assets	143,683	125,958
Property and equipment, net	121,992	119,338
Goodwill	173,575	138,980
Intangibles, net	24,167	635
Non-current deferred tax asset, net	16,203	21,713
Other assets	14,356	11,249
Total assets	$ 493,976	$ 417,873
LIABILITIES, MINORITY INTEREST AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current maturities of indebtedness	$ 413	$ 1,400
Current maturities of capital lease obligations	1,451	1,178
Accounts payable	17,428	13,957
Affiliates and independent owner-operators payable	12,597	11,025
Accrued expenses	25,957	21,197
Environmental liabilities	4,751	5,995
Accrued loss and damage claims	13,438	11,533
Income tax payable	555	
Total current liabilities	76,590	66,285
Long-term indebtedness, less current maturities	343,575	272,826
Capital lease obligations, less current maturities	3,832	3,718
Environmental liabilities	6,418	5,831
Accrued loss and damage claims	18,474	20,633
Other non-current liabilities	15,954	14,249
Deferred tax liability		724
Total liabilities	464,843	384,266
Commitments and contingencies Note 17		
Minority interest in subsidiary	1,833	1,833

SHAREHOLDERS EQUITY		
Common stock, no par value; 29,000 shares authorized; 19,334 issued and 19,176 outstanding at December 31, 2007 and 19,210 issued and 19,038 outstanding at December 31, 2006, respectively	361,617	359,995
Treasury stock, 158 and 172 shares at December 31, 2007 and December 31, 2006, respectively	(1,564)	(1,527)
Accumulated deficit	(126,146)	(118,255)
Stock recapitalization	(189,589)	(189,589)
Accumulated other comprehensive loss	(16,748)	(18,531)
Stock purchase warrants		21
Stock subscriptions receivable	(270)	(340)
Total shareholders equity	27,300	31,774
Total liabilities, minority interest and shareholders equity	$ 493,976	$ 417,873

The accompanying notes are an integral part of these consolidated financial statements.

Q UALITY DISTRIBUTION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (DEFICIT) AND COMPREHENSIVE INCOME (LOSS)

For the Years Ended December 31, 2007, 2006 and 2005 (In 000 s)

	Comprehensive Income (Loss)	Shares of Common Stock	Shares of Treasury Stock	Common Stock	Treasury Stock	Accumulated Deficit	Stock Recapitalization	Accumulated Other Comprehensive Loss	Stock Purchase Warrants	Unearned Compensation Restricted Stock	Stock Subscription Receivables	Total Shareholders Equity (Deficit)
Balance, December 31, 2004 (Adjusted Note 3)		19,113	(73)	$ 357,383	$ (588)	$ (185,961)	$ (189,589)	$ (18,042)	$ 73	$ (1,077)	$ (1,645)	$ (39,446)
Net income (Adjusted Note 3)	$ 11,867					11,867						11,867
Minority stock dividend												
Issuance of restricted stock			28	30	414	(196)				(248)		
Issuance of stock units				2,345						(2,345)		
Forfeiture of restricted stock			(47)	(742)						742		
Amortization of restricted stock										953		953
Stock warrant exercise		10		19					(19)			
Payment of stock subscription receivables											76	76
Acquisition of treasury stock			(1)		(28)						28	
Amortization of non-employee options				125								125
Translation adjustment, net of a deferred tax provision of $93.	(79)							(79)				(79)
Pension plan minimum liability, net of a deferred tax benefit of nil	(958)							(958)				(958)
Balance, December 31, 2005 (Adjusted Note 3)	$ 10,830	19,123	(93)	359,160	(202)	(174,290)	(189,589)	(19,079)	54	(1,975)	(1,541)	(27,462)
Net income (Adjusted Note 3)	$ 56,170		73			56,170						56,170
Reclass of unearned compensation restricted stock				(1,975)						1,975		
Issuance of restricted stock			28	(243)	314	(71)						
Forfeiture of restricted stock			(2)	15	(15)							
Amortization of restricted stock				369								369
Amortization of stock units				1,473								1,473
Amortization of non-employee options				125								125
Amortization of stock options				1,038								1,038
Stock warrant exercise		87		33					(33)			
Stock option exercise			24		267	(64)						203
Acquisition of treasury stock			(129)		(1,891)						1,201	(690)
Translation adjustment, net of a deferred tax provision of $52	(14)							(14)				(14)
Pension plan SFAS 158 adjustment, net of deferred tax benefit of nil								(886)				(886)
Pension plan minimum liability, net of a deferred tax liability of $923	1,448							1,448				1,448

Balance, December 31, 2006 (Adjusted Note 3)	$ 57,604	19,210	(172)	$ 359,995	$ (1,527)	$ (118,255)	$ (189,589)	$ (18,531)	$ 21	$	$ (340)	$ 31,774

The accompanying notes are an integral part of these consolidated financial statements.

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QUALITY DISTRIBUTION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME (LOSS)

For the Years Ended December 31, 2007, 2006 and 2005 (In 000 s) continued

	Comprehensive Income (Loss)	Shares of Common Stock	Shares of Treasury Stock	Common Stock	Treasury Stock	Accumulated Deficit	Stock Recapitalization	Accumulated Other Comprehensive Loss	Stock Purchase Warrants	Stock Subscription Receivables	Total Shareholders Equity
Balance, December 31, 2006 (Adjusted Note 3)		19,210	(172)	$ 359,995	$ (1,527)	$ (118,255)	$ (189,589)	$ (18,531)	$ 21	$ (340)	$ 31,774
Net loss (As adjusted)	$ (7,563)					(7,563)					(7,563)
Issuance of restricted stock		47	11	(25)	25						
Forfeiture of restricted stock			(2)	11	(11)						
Amortization of restricted stock				295							295
Amortization of non-employee options				125							125
Amortization of stock options				1,143							1,143
Stock warrant exercise		80		21					(21)		
Stock option exercise			8	52	19						71
Acquisition of treasury stock		(3)	(3)		(70)					70	
FIN 48 Adjustment						(328)					(328)
Translation adjustment, net of tax	182							182			182
Adjustment to pension obligation, net of a deferred tax liability of $1,009	1,601							1,601			1,413
Balance, December 31, 2007	$ (5,780)	19,334	(158)	$ 361,617	$ (1,564)	$ (126,146)	$ (189,589)	$ (16,748)	$	$ (270)	$ 27,300

The accompanying notes are an integral part of these consolidated financial statements.

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Q UALITY DISTRIBUTION, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2007, 2006 and 2005

(In 000 s)

	Years Ended December 31,		
	2007	2006 (Adjusted Note 3)	2005 (Adjusted Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (loss) income	$ (7,563)	$ 56,170	$ 11,867
Adjustments to reconcile to net cash and cash equivalents provided by operating activities:			
Deferred income tax provision (benefit)	(6,029)	4,661	(266)
Depreciation and amortization	17,544	16,353	17,278
Bad debt expense (recoveries)	796	(361)	1,219
Loss (gain) on disposal of property and equipment	601	(5,163)	288
Impairment loss on property and equipment	358	270	75
Interest income on repayment of stock subscription		(690)	
Write-off of deferred financing costs	2,031		1,110
Stock based compensation	1,563	3,005	1,077
Amortization of deferred financing costs	1,865	1,824	1,855
Amortization of bond discount	279	243	233
Write-off of stock offering costs		986	
Minority dividends	145	145	145
Provision for (Release of) deferred tax asset valuation allowance	1,403	(45,226)	
Changes in assets and liabilities:			
Accounts and other receivables	(2,545)	16,185	(1,901)
Prepaid expenses	(309)	(728)	(491)
Other assets	910	(4,846)	(3,919)
Accounts payable	(288)	(5,082)	4,516
Accrued expenses	2,784	(1,833)	(11,024)
Environmental liabilities	(657)	(5,333)	(8,439)
Accrued loss and damage claims	(1,155)	(2,464)	(3,946)
Affiliates and independent owner-operators payable	816	(954)	1,996
Other liabilities	545	1,074	(207)
Current income taxes	958		(2,427)
Net cash provided by operating activities	14,052	28,236	9,039
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(10,557)	(14,870)	(15,855)
Acquisition of businesses and assets	(6,836)	(6,447)	(4,466)
Acquisition of Boasso America Corporation	(53,415)		
Cash acquired from Boasso America Corporation	1,015		
Proceeds from sales of property and equipment	6,394	10,726	4,258
Net cash used in investing activities	(63,399)	(10,591)	(16,063)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of long-term debt	46,809		83,300
Principal payments on long-term debt	(65,450)	(1,400)	(78,900)
Principal payments on capital lease obligations	(1,204)	(363)	(27)
Proceeds from revolver	123,030	209,500	140,600
Payments on revolver	(41,400)	(222,500)	(133,400)
Payments on acquisition notes	(592)		

Deferred financing costs	(9,170)		(3,231)
Stock offering costs	(787)	(199)	
Change in book overdraft	1,033	2,430	(2,415)
Minority dividends	(145)	(145)	(145)
Other stock transactions	70	203	76
Net cash provided by (used in) financing activities	52,194	(12,474)	5,858
Effect of exchange rate changes on cash	23	34	102
Net increase (decrease) in cash and cash equivalents	2,870	5,205	(1,064)
Cash and cash equivalents, beginning of period	6,841	1,636	2,700
Cash and cash equivalents, end of period	$ 9,711	$ 6,841	$ 1,636
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest	$ 28,850	$ 27,034	$ 24,645
Income Taxes	438	1,760	3,459
SUPPLEMENTAL DISCLOSURES OF NON-CASH FLOW INFORMATION:			
Adjustment to pension obligation	$ 2,422	$ 1,448	$ 958
Original capital lease obligations	1,094	4,526	760
Note issued to seller for purchase of business assets	4,956	1,613	
Deferred tax adjustment related to Boasso acquisition	10,050		
Adjustment to deferred taxes for FIN 48 adoption	972		
Transfer of tractors from other assets to fixed assets	2,950		
Long-term liability assumed with purchase of business		4,427	

The accompanying notes are an integral part of these consolidated financial statements.

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Quality Distribution, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

For the Years Ended December 31, 2007, 2006 and 2005

1. BUSINESS ORGANIZATION

Quality Distribution, Inc. (the Company or QDI) and its subsidiaries are engaged primarily in truckload transportation of bulk chemicals in North America. We conduct a significant portion of our business through a network of Company terminals, affiliates and independent owner-operators. Affiliates are independent companies, which enter into various term contracts with the Company. Affiliates are responsible for paying for their own power equipment (including debt service), fuel and other operating costs. Certain affiliates lease trailers from us. Owner-operators are independent contractors, who, through a contract with us, supply one or more tractors and drivers for our use. Contracts with owner-operators may be terminated by either party on short notice. We charge affiliates and third parties for the use of tractors and trailers as necessary. In exchange for the services rendered, affiliates and owner-operators are normally paid a percentage of the revenues generated for each load hauled.

2. SI